

# Public Utilities

Volume 63 No. 9



April 23, 1959

## A NEW APPROACH TO NATURAL GAS PRODUCER REGULATION

*By Roger L. Conkling*

« »

## What Was Our Image on Wednesday?

*By Harvey G. Booth*

« »

## Never Say "Lobby"

*By James H. Collins*

« »

The USITA Management Conference

REPRESENTATIVE PUBLIC UTILITY COMPANY  
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# Public Utilities

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VOLUME 63

APRIL 23, 1959

NUMBER 9



### ARTICLES

#### A New Approach to Natural Gas Producer Regulation ..... *Roger L. Conkling* 593

An alternative approach to natural gas producer regulation might be found in competitive bidding.

#### What Was Our Image on Wednesday? ..... *Harvey G. Booth* 607

Corporate image is one of those coined terms which means the public's idea of any given organization.

#### Never Say "Lobby" ..... *James H. Collins* 613

It is more polite to speak of one's own interests as "loyalties" or similarly more tactful designation.

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(left to right) Messrs. C. W. Elston, General Manager—Gas Turbine Department, G. B. Warren, Vice President and Consulting Engineer—Turbine Division, and W. S. Ginn, Vice President and General Manager—Turbine Division discuss advantages of a gas turbine peaking unit.

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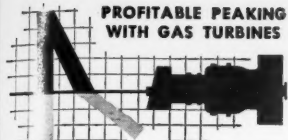
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**PROFITABLE PEAKING  
WITH GAS TURBINES**



# A decade of expanding peaking requirements for electric utilities

## Gas turbines-economical answer to varied peaking applications

apid peak load growth coupled with reduced steam cycle efficiency gains made in recent years have focused new attention on the costs incurred for providing added peak load capacity.

Today many electric utility systems are relatively saturated with steam turbines nearly as efficient as the latest units. This basic change in the economics of peak load generation dictates a renewed interest in low-investment gas turbines for a wide variety of peaking applications.

Let's examine briefly some of the basic advantages inherent to gas turbine peaking.

**GREATER CAPACITY IN ONE UNIT.** In sharp contrast to small building-block units, General Electric offers a peaking gas turbine designed to produce 20,000-25,000 kilowatts. Even larger units are planned to keep pace with system load growth. Because one machine can produce over 10 times more kilowatts than a building-block unit, space, installation and maintenance costs and control complexity are appreciably reduced.

**LOWER INSTALLED COST.** Because of their low cost per kilowatt of capacity, low space requirements, minimum foundations and extreme simplicity, simple-cycle gas turbines are available to play an increasing role in utility peaking plans.

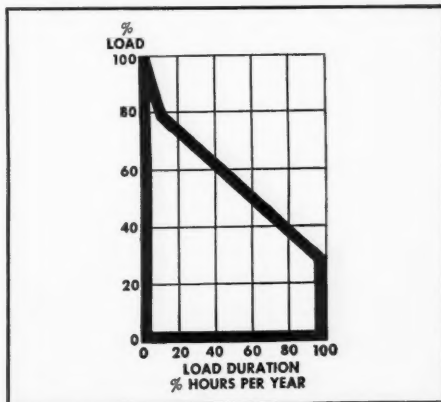
**LOWER OPERATING LABOR COST.** Due to their extreme simplicity, compact arrangement, and easy-to-use controls and auxiliaries, General Electric gas turbines require a minimum of operating labor. When installed at existing steam power plants, additional operating labor is usually not required. Opportunities of remote operation provide still another means of substantially reducing this type of peak load generating expense.

**LOWER STANDBY COST.** In sharp contrast to steam plants which must be kept hot during off-the-line periods, gas turbines require no attendance or auxiliary service during periods of inoperation. Since standby fuel costs are eliminated, the total fuel consumption for equivalent peak generation is often less with gas turbines.

**LOWER MAINTENANCE COSTS.** With maintenance charges for older steam units increasing steadily... and with the prospect that maintenance costs will increase still further with the eventual assignment of modern reheat steam units to peaking service, low gas turbine maintenance costs are of growing importance to many utilities. For short duration peak load service, gas turbine maintenance costs will be considerably less than with older steam plants often used for this service.

Gas turbines are ready—now—to fill your growing peaking requirements. With 189 units now in service logging a total of nearly 3,000,000 operating hours, General Electric gas turbines stand ready to assume their rightful role in helping meet tomorrow's growing peaking power demands—economically.

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WITH THE TOP TEN PER CENT of system load having a duration of only a few hundred hours annually, gas turbines offering lower initial investment costs are General Electric's answer to peaking power requirements of the future.

*Progress Is Our Most Important Product*

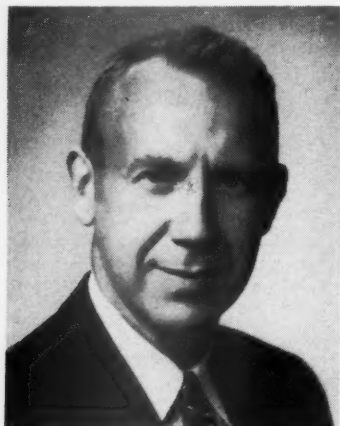
**GENERAL  ELECTRIC**

# Pages with the Editors

**I**N the swift-moving channels of public relations activity, concepts and definitions often seem to change constantly. Even the very expression "public relations" has grown a bit shopworn, in the opinion of some, because it has been stretched to cover so many and such different situations.

PERHAPS it is a symptom of the dynamic period through which the managerial responsibility for making friends and influencing people—from the standpoint of public utility industries—has been passing. One of the more recently coined phrases to make its appearance in this field is the "corporate image." The corporate image presumably means the public view; that is to say, the reflection in the public eye of any given business corporation.

THE objective of utility public relations people is to try to make this reflection a true and accurate one. But it is almost unavoidably distorted by wrong notions concerning the very nature of business corporations. We know that the true mirror of a business corporation's reflection should not show only the image of statistical figures or physical things. A corporation is not just the sum total of stocks and bonds or the more physical aspects



ROGER L. CONKLING



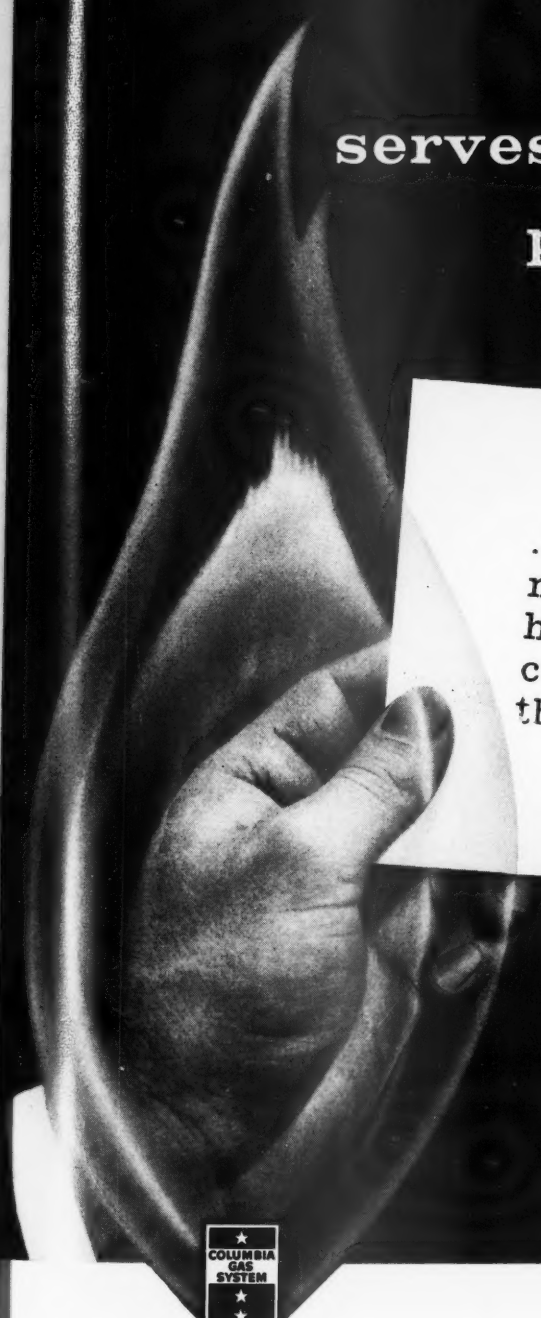
HARVEY G. BOOTH

of plant and machinery and property inventories. All of these are, of course, essential to the corporate function, as far as they go.

**B**UT they are still only component parts; and the sum total of the public utility corporation must necessarily be more than a mere totaling of physical components. The most difficult, yet the most important, part of the picture to bring into true focus is the human element. The public utility corporation means a lot of different things to different kinds of people from all walks of life, associated together for the common purpose of useful business enterprise. There are men and women and institutions. There are the well-to-do and those who are not not so well-to-do. There are all shades of political, social, and religious opinions.

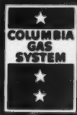
THE modern telephone corporation certainly is a prime example of this representative cross section of humanity. That is why the modern telephone corporation must be fully aware of its responsibility to the public from the standpoint of its service obligation.

HARVEY G. BOOTH, whose article on the corporate image of a telephone com-



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more natural gas per  
household than in any  
comparable section of  
the country.



throughout its service territory—in Ohio,  
Pennsylvania, West Virginia, Kentucky,  
Virginia, Maryland and southern New  
York—natural gas continues to be the  
preferred fuel for home and industry.

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PAGES WITH THE EDITORS (Continued)

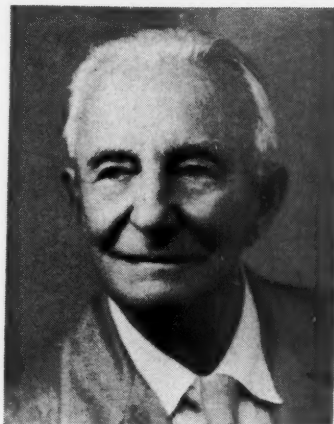
pany begins on page 607 ("What Was Our Image on Wednesday?"), is vice president in charge of public relations for the Southern Bell Telephone and Telegraph Company. He began his career in the Bell system at Atlanta, Georgia, in 1920, with the parent American Telephone and Telegraph Company. He transferred to Southern Bell in 1929 and has held a number of positions of increasing responsibility in the traffic and commercial departments in Florida, Georgia, and North Carolina. He was appointed vice president in 1954. He makes his home in Atlanta and is active in civic and community affairs. MR. BOOTH is also a director of the Carolina Telephone & Telegraph Company, and a director of the Associated Industries of Georgia.

\* \* \* \*

ROGER L. CONKLING, who proposes a new approach to natural gas producer regulation via the competitive route (see page 593), is an associate of the utility consulting firm of H. Zinder & Associates, Inc., Washington, D. C. In addition to service with the Armed Forces as a naval officer in World War II, MR. CONKLING has made his career in both the government and private industry. After his graduation from Northwestern University and the University of Oregon he joined the Public Service Company of Northern Illinois, a subsidiary of Commonwealth Edison. His tour with the government was with the Bonneville Power Administration in Portland, where he was assistant to the Administrator. He received the 1956 Arthur S. Flemming award of the Junior Chamber of Commerce as one of the ten outstanding young men in the federal service.

\* \* \* \*

IT used to be said that the smart man does not quit learning just because he stops going to school. But in these days of seminars and special courses for businessmen and others, they do not seem to stop going to school regardless of age. We read the other day where even the U. S. Senators have organized a little class for themselves to keep better informed, operated by one of their former schoolteacher members,



JAMES H. COLLINS

Senator Gore of Tennessee. What brings this up is the interesting report to be found in our "What Others Think" section of this issue dealing with the USITA Management Development Program, conducted every year on the campus of the University of Kansas.

\* \* \* \*

ONE of the conventions of getting along in Washington is to join the conspiracy of never saying the word "lobby." It simply is not used in polite circles, although it is generally admitted that the nation's capital is always under various kinds of pressure. One might occasionally refer to the competition or the opposition as a "lobby," but when referring to one's own preoccupation, such euphemistic phrases as "movements" or "group association" are regarded as better form.

JAMES H. COLLINS, now living in Washington, D. C., has taken this occasion (see page 613) to poke a little fun at such semantic pretensions. As a long-time writer of business articles, MR. COLLINS has no inhibitions about pressures from any source. He gives us an entertaining piece on the real value of utility planning and community relations, regardless of what it is called in other quarters.

THE next number of this magazine will be out May 7th.

*The Editors*



The design work on all these new substations is going to be hard to handle with our present force.

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#### **Services in Regulatory Matters**

Pioneer offers its services in all phases of Federal, State and Local regulation including the rate base, depreciation analysis, cost of service studies, market analysis... certificate proceedings and rate of return.

#### **Corporate Services**

Pioneer's services in corporate matters include business and management engineering advice, financial, accounting and tax counsel and insurance and pension plans and programming. It operates a stock transfer and dividend disbursement service and maintains stock ledgers when desired.



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Chicago 4, Illinois



# Coming IN THE NEXT ISSUE

(May 7, 1959, issue)



## **POWER ON THE MOVE**

Underlying the expansion of extra high-voltage transmission must be adherence to basic economic principles if the public is to benefit by such installation. Edward A. Fontaine, manager of the electric department of Stone & Webster Service Corporation, outlines four objectives for pooling generating and transmitting resources through "high lines": (1) to make available excess capacity in various companies which can use it on an economic basis; (2) to make available excess transmission facilities on a similar basis; (3) to permit co-ordination of production schedules; (4) to permit co-ordination of maintenance schedules and safeguard against service hazards.

## **LAYMEN AS REGULATORY COMMISSIONERS. PART I.**

In these days of questioning and even criticism of commission regulation as it is practiced in Washington, D. C., the findings of a scholar who has made a virtual career of research in this area should be of special significance. Following up his previous analysis of professional background for regulatory commissions, ranging from lawyers through accountants, engineers, etc., Dr. Lincoln Smith of New York University now gives us a two-part series on the question of using so-called "laymen"—not associated with any learned profession or particular technical or academic training—to assume the responsibilities of the regulatory function. In this first instalment he deals with statutory requirements in some states and some of the general arguments in favor of using the "well-rounded," well-informed, but nonprofessional commissioner.

## **NEW FEDERAL TAX TREATMENT FOR TRANSIT**

All forms of public utility enterprise—not just those directly engaged in transportation operations—have a stake in what is happening or likely to happen to urban mass transit. The problems of city streetcar and bus systems since the end of World War II have been too widely discussed to need restatement as such. But Arthur T. Sonnenberg, of the staff of the District of Columbia Public Utilities Commission, has given special attention to the frequently suggested federal tax exemption and subsidy grants to private transit operators as an alternative to direct municipal or other government operations. Are such ideas sound as a method for stabilizing private industry in the transit business, or is this merely a temporary palliative which would tend to spread to other essential industries having financial difficulties without reaching the real problem or providing a lasting solution for keeping the wheels of city transit going around?



**Also . . .** *Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others*

# R&S Standard Report

PEOPLES UTILITY COMPANY  
BILL ANALYSIS - Commercial  
PERIOD - Year 19 -

Kw. Mts.	No. Bills	Consumption in Kw. Mts.	No. Bills	RATE - CUMULATIVE Consumption in Kw. Mts.	Consolidated Factor
1	1	100	1	100	1.00
2	2	200	2	200	1.00
3	3	300	3	300	1.00
4	4	400	4	400	1.00
5	5	500	5	500	1.00
6	6	600	6	600	1.00
7	7	700	7	700	1.00
8	8	800	8	800	1.00
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98	98	9800	98	9800	1.00
99	99	9900	99	9900	1.00
100	100	10000	100	10000	1.00

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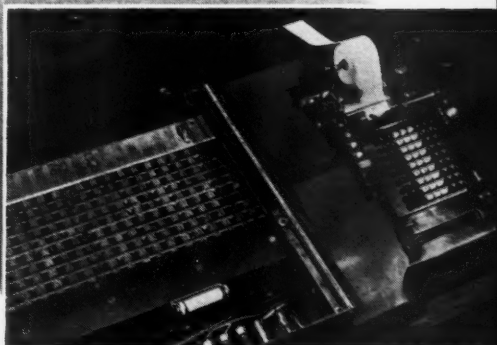
From these analyses rate engineers can swiftly plot past, present and future courses invaluable in helping secure rates to protect earnings ratio necessary to attract fresh capital for plant expansion under construction or planned for the future.

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# Remarkable Remarks

*"There never was in the world two opinions alike."*

—MONTAIGNE

MILTON C. LIGHTNER  
*President, National Association  
of Manufacturers.*

"[Tax reforms are needed to encourage] a strong and expanding economy [that will] produce the tax money that the government needs and greater real prosperity for everyone."

BILL HENRY  
*Columnist.*

"History tells us that it is always easier to arouse antagonism than to sustain support. If you are 'for' something you have to give reasons. If you are 'against' something you don't."

EDITORIAL STATEMENT  
*The Wall Street Journal.*

"We only wish the public power bloc in Congress could be persuaded, in the nation's true atomic interest, to take it easy instead of rushing to waste tax billions on nuclear power nobody yet needs."

GABRIEL HAUGE  
*Chairman, finance committee,  
Manufacturers Trust Company,  
New York, New York.*

"... more competition in more markets is a badly needed emphasis in government policy. . . . In both economic analysis and policy, the pendulum has swung too far toward public interference in markets of various kinds."

DANIEL P. LOOMIS  
*President, Association of  
American Railroads.*

"Featherbedding by any definition is a net loss to all America. It puts pressures on our rate structure and bids up prices to all consumers. It is a handmaiden of the ruinous inflationary spiral. It helps impoverish and weaken the railroads, means fewer returns to investors, and a virtual freeze-out of the new equity capital needed to expand and improve plant."

CHARLES R. SLIGH  
*Executive vice president, National  
Association of Manufacturers.*

"We believe that women, in their deep concern for their families, will want to examine the federal tax system. It is devised so that the harder a person works the less of his additional earnings he is permitted to keep. . . . The battle for economic and political freedom will be won or lost in the community, in the city block, among the voters in each house or apartment building . . . action in Washington begins at home."

CHARLES B. SCHUMAN  
*President, American Farm  
Bureau Federation.*

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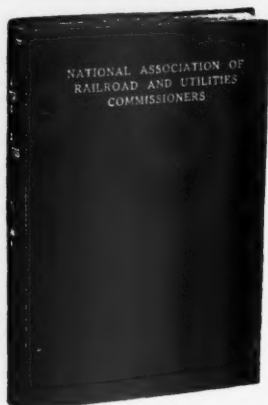
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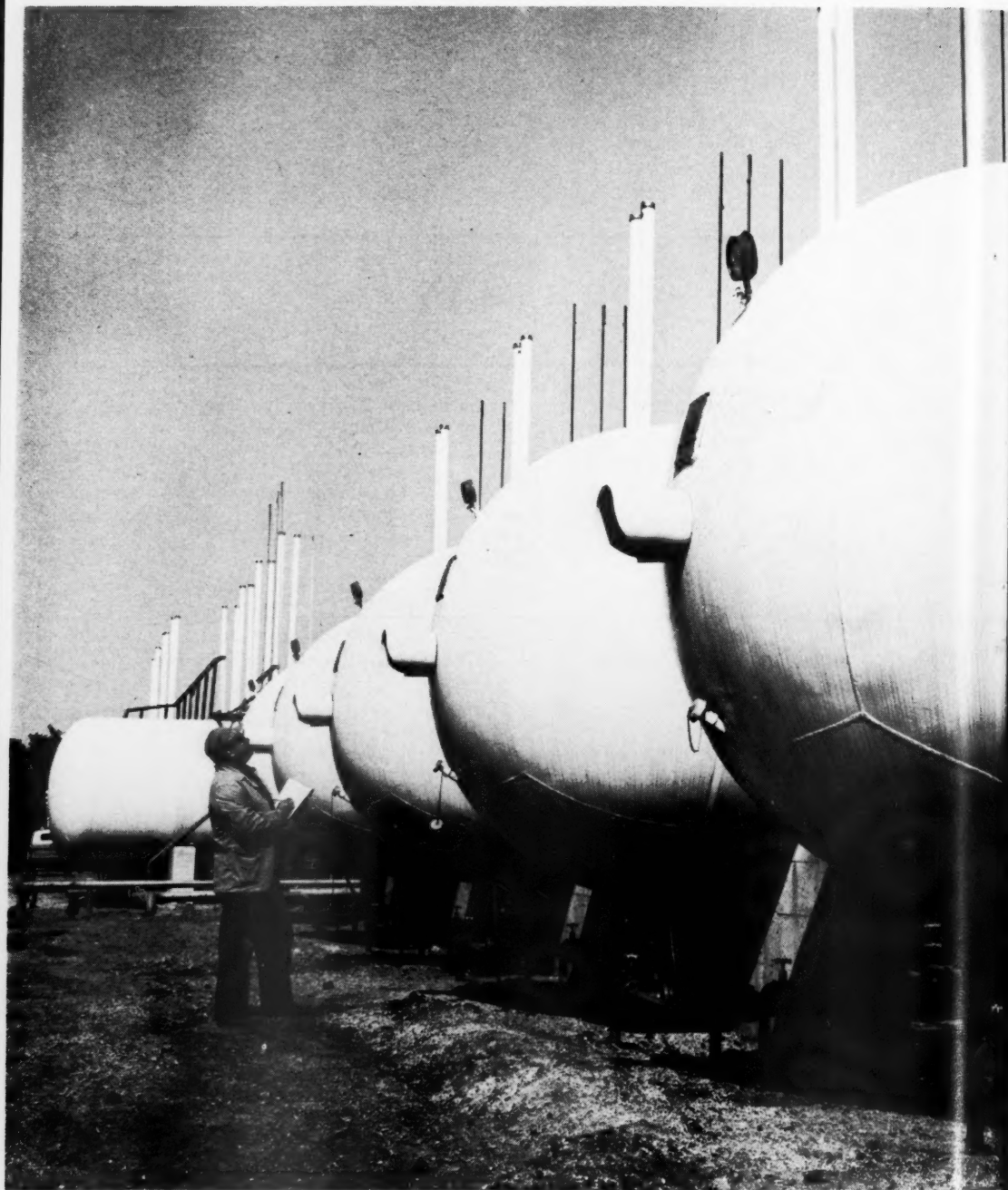
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# UTILITIES

## *A.l.m.a.n.a.c.k*

### APRIL-MAY

<b>Thursday—23</b> <i>Indiana Gas Association begins meeting, French Lick, Ind.</i> 	<b>Friday—24</b> <i>Natural Gasoline Association of America ends three-day annual convention, Dallas, Tex.</i>	<b>Saturday—25</b> <i>American Water Works Association, Pacific Northwest Section, ends three-day meeting, Vancouver, British Columbia, Canada.</i>	<b>Sunday—26</b> <i>Chamber of Commerce of the United States begins annual meeting, Washington, D. C.</i>
<b>Monday—27</b> <i>Southern Gas Association begins annual convention, New Orleans, La.</i>	<b>Tuesday—28</b> <i>American Society of Planning Officials will hold national planning conference, Minneapolis, Minn. May 10-14. Advance notice.</i>	<b>Wednesday—29</b> <i>American Institute of Electrical Engineers begins Empire District meeting, Syracuse, N. Y.</i> 	<b>Thursday—30</b> <i>American Women in Radio and Television begin annual national convention, New York, N. Y.</i>
<b>MAY</b> <b>Friday—1</b> <i>Edison Electric Institute, Statistical Committee, ends two-day meeting, Detroit, Mich.</i>	<b>Saturday—2</b> <i>Alabama Broadcasters Association ends three-day meeting, Biloxi, Miss.</i>	<b>Sunday—3</b> <i>Liquefied Petroleum Gas Association begins annual meeting, Chicago, Ill.</i>	<b>Monday—4</b> <i>Edison Electric Institute, Prime Movers Committee, begins meeting, Chicago, Ill.</i>
<b>Tuesday—5</b> <i>American Gas Association begins research and utilization conference, Cleveland, Ohio.</i>	<b>Wednesday—6</b> <i>Public Utilities Advertising Association begins annual convention, Dallas, Tex.</i>	<b>Thursday—7</b> <i>Indiana Telephone Association ends two-day annual convention, Indianapolis, Ind.</i> 	<b>Friday—8</b> <i>American Water Works Association, New York Section, begins meeting, Rochester, N. Y.</i>



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# Public Utilities

*FORTNIGHTLY*

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APRIL 23, 1959

NUMBER 9



## *A New Approach to* Natural Gas Producer Regulation

By ROGER L. CONKLING\*

Because of the dual nature of the gas industry, cost-of-production and cost-of-service methods of establishing a rate of return for natural gas producers do not prove satisfactory. Why not use the competitive nature of the industry as a real foundation for natural gas field price regulation? Competitive bidding by individual producers would set standards for new prices as well as guideposts against which existing contracts could be gauged for reasonableness.

SOME workable solution needs to be found—and soon—to the problem of regulating the prices charged by producers of natural gas. Regulatory authorities, producers, pipelines, gas distributing companies, and consumer interests have been struggling with this problem since June, 1954, when the U. S. Supreme Court decision in the Phillips case brought natural gas production under federal regulation. These efforts have not produced a workable solution.

Meanwhile, the situation continues to deteriorate. The regulatory process continues to lag. The natural gas production industry and all others in the chain—from producer to natural gas consumer—are confronted with confusion and uncertainty. "Where do we go from here?" is the \$92 million question.<sup>1</sup> The public interest demands an early answer.

### Establishment of Natural Gas Field Prices

NATURAL gas in the field typically was sold prior to regulation—and con-

\*Associate, H. Zinder & Associates, Inc. Washington, D. C. For additional personal note, see "Pages with the Editors."



## PUBLIC UTILITIES FORTNIGHTLY

tinues to be sold under regulation—at prices and under contracts negotiated at arm's length between producer and buyer. These sales ordinarily are large-scale, long-term transactions. They normally provide for an upward adjustment in price as the term of the contract progresses, either in accordance with a fixed schedule established in the contract or (through "favored nations" and price redetermination clauses) as changes occur in current market prices, or both.

It is only in recent years that natural gas has become a valuable commodity, with what amounts to a nation-wide market. Not too many years ago, large volumes of gas produced in conjunction with oil were flared at the wellhead or sold at "give-away" prices. The long-distance pipelines, by transporting gas in large volumes to urban centers and industries remote from producing fields, transformed this almost valueless by-product of oil into a highly useful, much sought after commodity. Today the demand for natural gas is tremendous. Gas now has an importance comparable to oil. It is now a joint product, not a by-product. Gas is now a significant component of the nation's energy resources.

The transition of natural gas into a valuable commodity has been, of course, reflected in its price. Former scrap-level prices have risen very substantially. This is a matter-of-course result unless prices are depressed artificially. Higher field prices have, in turn, been reflected in higher pipeline rates, and in higher prices to consumers.

### The "Cost" Approach

**A**T the present time, two basically different approaches to the regulation of

producer prices of natural gas are being proposed. Some producers, through such means as the consolidated mine-producer "Omnibus" case, now being heard by the Federal Power Commission, are advocating "fair field prices."<sup>2</sup> The commission, in carrying out the edict of the court in the Detroit case,<sup>3</sup> is trying "cost." We shall first discuss the latter approach.

**T**HE "cost" approach is an attempt to apply to natural gas pricing the same cost-type methods and techniques used for the utilities. It reflects the commission's long background of cost regulation of the interstate electric and gas transmission utility industries.<sup>4</sup> Under this method, a "cost" of producing gas in the field is established. Prices are then set so as to permit producers to recover their "cost," including a reasonable return on their investment.

The attempt to set prices on the basis of traditional utility methods fails to recognize the fundamental differences between the utility industries and natural gas production. Although these differences are many, perhaps the most critical from the standpoint of the workability of the cost approach arises from the inseparability of oil and gas production. Exploration for one of these necessarily means exploration for the other, in practically all instances. Either or both products may be found, although the relative proportions will vary and although some areas may be considered to be "more promising" for finding one than the other. Therefore, oil and gas are what economists call "joint products." Neither economics nor accountancy provides a method by which the costs of joint products may be separated on any accurate basis. This is where the establishment

## A NEW APPROACH TO NATURAL GAS PRODUCER REGULATION

of natural gas producer prices on a cost basis first breaks down. It is not possible to find, with any reasonable degree of accuracy, the cost of producing natural gas, except for those few producers who are not also engaged in the production of oil.

**T**HE cost-of-service—rate of return approach breaks down on the rate of return side also. Oil and gas production is not a semiprotected natural monopoly, as are the utility industries. Rather, it is a highly speculative industry. There are hundreds of large producers and thousands of small producers. On a statistical basis, the petroleum producer—small wildcatter and major oil company alike—is most likely to find a “dry hole”—that is, nothing—as a result of his efforts. Or, if he is lucky, he may find both oil and gas, or only gas or only oil. The odds are great against a really good strike.<sup>5</sup> How do you fix a rate of return which will induce continuing exploration in the face of these odds? Is 6 per cent enough to support, say, odds of 9 to 1; is 20 per cent enough; or 50 per cent?

### Steak Debate Parallel

**T**o illustrate the dilemma involved in any attempt to apply a cost-of-service

—rate of return approach to producer price determination, imagine that it has become the law that the price of beefsteak shall be regulated. Not the roasts, or the stews, or the hamburger, or the hide of the beef, only the steaks. The Federal Steak Commission which is given jurisdiction over such regulation decides: “The prices of the utility services have been regulated for years on the basis of cost. So, we will regulate the price of beefsteak on the basis of cost. We will allow the farmers of America to sell steak at a price which precisely matches the cost which they incur in producing steak, plus a reasonable profit.”

Each farmer is thereby told to determine his cost of steak, in order that the commission can decide on the price he may charge.

**I**T is soon realized that steak cannot be produced except as part of a beef. Therefore, in order to comply with the order, each farmer starts to divide his costs of producing beef between steak and non-steak. This is called “cost allocation.”

Some give up and say it cannot be done. No one quite knows what to do with this dissident group. Other farmers—and their customers—are more ingenious.



**Q** “MORE recent actions of the Federal Power Commission and the courts seem to indicate that the fallacy of the so-called ‘cost’ approach is beginning to be recognized. In its Opinion No. 310, issued April 4, 1958, the commission found that, at least under certain conditions, the traditional rate base or cost method produced ‘incongruous results’ and could not be used to fix producer prices. The administrative problem was ‘insuperable.’ The rate base method would be ‘contrary to the public interest.’ But the commission limited its indictment of cost to the specific circumstances prevailing in the particular case it was considering (involving eleven independent producers operating in one field where only a small portion of the rates of each company was being investigated). The commission did not disavow cost for other producer rate cases.”

## PUBLIC UTILITIES FORTNIGHTLY

One farmer argues: A beef weighs 650 pounds on the average. This includes 115 pounds of steak. So my costs of steak are 115/650, or 17.7 per cent of my costs of raising the beef. His neighbor (not a farmer, but a fellow who likes to eat steak) does a little calculating and challenges these figures. You have taken the "dressed" weight of the beef, he points out. You should have taken the "on the hoof" weight of the beef, which is 1,000 pounds. Your percentage, therefore, is 115/1000, or 11.5 per cent, instead of 17.7 per cent. Our steak lover, by this simple stroke, has lowered the "cost" of beef by 35 per cent!

**T**HE argument rages throughout the country. Another calculating individual disagrees entirely with the weight approach: People do not care about weight, he contends; they are interested in being fed and the best measure of food value is the calorie. So he calls in an expert on calories who tells him how many calories are contained in the average cow and how many in the steaks alone. This is the percentage to be used, he says. Still another disagrees with both the weight and the calorie approach: Neither pounds nor calories will give you costs, he says. Vitamins are what interest steak eaters. We must use vitamins as our measuring rod. We shall arrive at costs by assigning to steak that proportion of our beef production costs which represents steak vitamin content as compared to the vitamin content of the whole cow. Someone else wants a still different method. Why not use the prices we formerly got for steak and for the rest of the cow to establish our cost percentage, he asks? It is promptly pointed out to him that prices cannot very well be used to determine prices, but he sticks to

his method nevertheless. Meanwhile, experts are arguing about cow and steak weights, cow and steak calories, and cow and steak vitamins, because the figures used on these matters change the cost percentage and if the cost percentage changes, the price of steak changes.

**S**UDDENLY it is remembered that after you arrive at costs, you must also decide on a rate of return. How much profit should we allow the farmer? This is a bit harder than it might once have been, since, as we forgot to mention before, cattle plagues are prevalent, so that the beef farmer is just as apt to lose his entire herd as not. The cattle-producing business has become speculative. However, since no one wants to give the other fellow any more than he must, there is a struggle for reasons to keep the profit low, with only a few cautious souls to remind us that if we would like to keep on eating steak we had better not drive the farmer away from the farm.

Thus goes the debate, in all seriousness. Few seem to recognize that whatever price we arrive at for steak, we affect the price of the rest of our beef products. If our price of steak is too high, we lower prices for the rest of the beef; if it is too low, we raise the other prices. This is inevitable. The entire beef will be sold, over the long run, at its total cost of production, including required profit.

### Gas Price Regulation Is Similar

**R**ETURNING to actuality, the parallel to natural gas price regulation as it now stands on a cost basis is all too clear. In a still undecided producer rate case, so many different methods of cost allocation were

## A NEW APPROACH TO NATURAL GAS PRODUCER REGULATION

proposed that one party to the proceedings commented: "Such methods are legion in number limited only by the ingenuity of man."<sup>6</sup> In this case, the results of the different methods of allocation (in terms of the producer's revenue deficiency) ranged from \$1 million to \$36 million.<sup>7</sup> It may be that there is no alternative but to use a formula approach to natural gas pricing (although this will not be cost by whatever name it is called). If this is so, let us, at the very least, drop the cost pretense and frankly admit that natural gas prices are to be regulated by some formula which assigns to gas some arbitrary part of the costs of joint oil and gas production. Let us call our present debate on the various "cost allocation methods" what it is, a search for a formula, rather than what it is not, a search for costs. Let us further admit that a rate of return for natural gas would be equally artificial.

And, finally, let us have the vision to see that if we regulate gas prices on what is now called a cost basis, we are in fact, although indirectly, regulating the price of oil. But all this may not be necessary. It is believed that there is a workable alternative.

Before discussing this alternative, it is desirable as background to briefly review the goal of price regulation of the utility industries, in which industries the principles of price regulation were first developed.

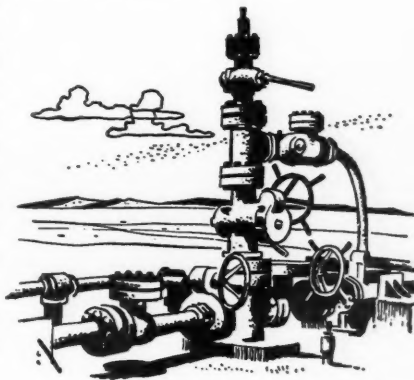
### The Goal of Utility Price Regulation

THE goal of utility price regulation is to provide for consumers the same protection against higher than competitive prices as the competitive process itself provides. In the free competitive market, which is the keystone of our private enter-



## What Competitive Bidding Would Accomplish . . .

"WHILE the competitive bidding process would insure a competitive price for new sales, it leaves unanswered what is to be done with respect to the regulation of prices under existing contracts. The competitive bidding procedure would, however, open up a variety of ways in which this problem might be solved. For example, the new prices established under competitive bidding would provide a fully competitive standard against which existing contract prices could be gauged. . . . it would be possible to establish, as a matter of commission policy (not law), the principle that pipeline companies be permitted to terminate their existing supply contracts upon due notice to the supplier, if the pipeline company felt it might obtain a replacement supply at a better price under the new competitive bidding procedure. The supplying producer would be expected to enter a bid to supply the replacement gas when the pipeline advertised."



## PUBLIC UTILITIES FORTNIGHTLY

prise economic system, the interests of consumers are assumed to be automatically safeguarded by the competition between sellers.

The utility industries, however, are "natural monopolies." Their character is such that it would be highly wasteful for society to attempt to foster direct competition among them. The waste, for example, of several pairs of duplicating streetcar tracks belonging to different companies running down the city streets, is obvious. So for all the reasons inherent in a natural monopolistic situation, our society has, typically, found it best to place the rendering of each utility service in a particular area in the hands of a single company or government agency. But with the special privilege of monopoly status go a number of special restrictions, the most important of which is price regulation. *Here, as a protection to consumers, administratively determined prices are substituted for competitively established prices. The objective of such administrative pricing is that prices be established which will closely approximate the prices which would have prevailed had competition been in force.<sup>8</sup> Thus, administrative pricing in the utility field is a substitute for direct competition.<sup>9</sup>*

### Why Follow a Substitute Method For Natural Gas?

**T**HE goal of utility price regulation, as just stated, is to arrive at approximately the same prices for consumers in the utility monopolistic situation as would prevail were it economically practicable to have competition in these utilities.<sup>10</sup> The question with respect to natural gas production is whether this goal can be achieved best under an administrative pricing

procedure, substituting for competitive pricing, or directly by competition. Stated differently, in the case of natural gas production, is it not possible to bypass administrative price fixing and go directly to competitively established prices? This is the main question of public policy posed in this article.

Certainly it would seem not fruitful to follow the administrative methods of price determination, which at best are a circuitous route toward the competitive price result, if an actual competitive price can be fixed on a free market. It is the writer's view that, *under additional safeguards to provide maximum protection of the public interest, free market price conditions can be assured* for the sale and purchase of natural gas in the field. If this can be done, the interests of both consumers and producers will be best protected. Further, regulation of the natural gas production industry will be fitted into a rational pattern rather than being forced into an inappropriate and cumbersome procedural strait jacket.

### Competitive Bidding by Producers

**W**HEN we examine this situation broadly, we discover that the natural gas production industry is, by its very nature, already highly competitive. This competitive situation may be utilized as the real foundation for natural gas field price regulation. The suggestion of this article is that natural gas field prices be established under *open competitive bidding by producers*—under the same procedures which have been used for years in government as a safeguard of proper prices. This is a solution which is consistent with the competitive nature of the industry; it



## A NEW APPROACH TO NATURAL GAS PRODUCER REGULATION

would take the regulation of the industry out of chaos; it would avoid indirect federal regulation of oil prices. But more than that, it would assure consumers a competitive price.

Under this method, the Federal Power Commission would be discharging its responsibility in full. The chance is that the efforts of the commission would be re-oriented. Instead of attempting to establish an administratively determined price, the commission would redirect its energies and skills toward the maintenance of competitive conditions in the industry. The primary rôle of regulation would be to establish a recognized free market for natural gas in the field and to police this market to prevent abuses.

THE Federal Power Commission would not have to start from scratch under this proposed method of regulation. The commission now regulates utility security issues on this basis. Another regulatory agency of the federal government, the Securities and Exchange Commission, also has had extensive experience in regulation by competitive bidding for security issues. Equally important, the government's regulations for competitive bidding, under which it makes all its pur-

chases, furnish a fully comprehensive and developed body of precedent.

Competitive bidding would not be foreign to producers, either. The federal government, for the Armed Forces, is reported to be the largest purchaser of petroleum products in the world. These products it buys under competitive bidding.<sup>11</sup> The states of Texas, Louisiana, and California, among others, lease public lands for oil and gas exploration under competitive bidding.<sup>12</sup> Thousands of wells are drilled for oil and gas producers every year on a competitive bidding basis.

### A Competitive Bidding Procedure<sup>13</sup>

UNDER the proposed method of regulation, the Federal Power Commission would require *public competitive bidding* for new purchases of natural gas in the field. The degree of competition among producers could be enhanced to the maximum by requiring that producers must bid individually, not collectively. Price schedules established in winning bids would be accepted by the commission as valid rates of producers and as valid costs of service of pipelines. The commission would establish standard bidding procedures covering the three main steps;



THE competitive bidding method appears to be the only producer pricing method under which natural gas consumers can be sure that they are not subsidizing oil users, and vice versa. Neither group of consumers can benefit in the long run from subsidizing, or being subsidized by, the other. The millions of people using natural gas in their homes for cooking, heating, or both, are being sold a bill of goods if they are led to believe that they will necessarily benefit more from lower natural gas prices than from lower oil prices. . . . the householder using natural gas in his home is invited to compare his annual natural gas bill with his expenses over the year for gasoline and oil for his automobile. The only common-sense solution is for natural gas and the other petroleum products to stand on their own feet pricewise."

## PUBLIC UTILITIES FORTNIGHTLY

namely, the invitation, the bid, and the bid evaluation.

Ordinarily, pipeline companies would issue an "invitation to bid" when they desired to purchase additional gas. Producers would respond by submitting sealed bids. Evaluation of the bids and selection of the winning bid would be the responsibility of the pipeline. The bidding processes would be under the supervision of the commission, which would police the procedure to prevent rigging or manipulation of any kind.<sup>14</sup>

While the competitive bidding process would insure a competitive price for new sales, it leaves unanswered what is to be done with respect to the regulation of prices under existing contracts. The competitive bidding procedure would, however, open up a variety of ways in which this problem might be solved. For example, the new prices established under competitive bidding would provide a fully competitive standard against which existing contract prices could be gauged. Or, as another but more complicated example, it would be possible to establish, as a matter of commission *policy* (not law), the principle that pipeline companies be permitted to terminate their existing supply contracts upon due notice to the supplier, if the pipeline company felt it might obtain a replacement supply at a better price under the new competitive bidding procedure. The supplying producer would be expected to enter a bid to supply the replacement gas when the pipeline advertised.<sup>15</sup>

WHILE such a policy would not be binding upon producers, it would be a substantial inducement for voluntary ac-

cord. The commission would not, of course, lose any of its other methods of recourse in the event of lack of agreement. If the selling producer agreed to the policy, and the pipeline then did not cancel even though it had the right, the contract prices and terms would be considered valid by the commission.

Next we shall examine more closely the economic merits of the competitive bidding proposal.

### Does Competitive Bidding Insure a Free Market?

ECONOMISTS ordinarily establish two basic requirements for competition: a sufficiency of sellers and buyers and adequate knowledge of the market on the part of such sellers and buyers.

There appears to be little room for question as to the existence of a sufficient number of natural gas producers to effectuate a competitive situation. Large producers number in the hundreds, smaller producers in the thousands. If producers were required to bid individually and collective bidding was not recognized, as is proposed, the degree of producer competition would be greatly increased.<sup>16</sup> About the relatively smaller number of buyers, it is not necessary to be particularly concerned. Strong competition among pipelines for new gas supplies has been demonstrated and undoubtedly will continue. More importantly, it is toward buyer protection pricewise that regulatory effort is directed.

Any present lack of the "adequate knowledge" requisite of a free market would be plugged by competitive bidding. Under a public bid invitation and bid response procedure both buyers and sellers would be fully informed. It is fair to as-

## A NEW APPROACH TO NATURAL GAS PRODUCER REGULATION

sume that their market knowledge would be more than adequate.

**O**F perhaps almost equal importance to adequate knowledge on the part of buyers and sellers themselves, gas distributors and consumer interests would have available the same knowledge. The entire pricing process would be open for public scrutiny.

Consumer interests would not lose their rights to appeal if they suspected rigging, or manipulation resulted in a non-competitive price. Rather, their hand in such cases would be strengthened, since all facts would be readily ascertainable. However, under the glaring spotlight of publicity, it is hard to conceive that anything less than full competition would prevail.

Accordingly, with a sufficiency of sellers and adequate market knowledge, there is no actual or theoretical bar under the proposed competitive bidding approach to full competitive pricing in a free market.

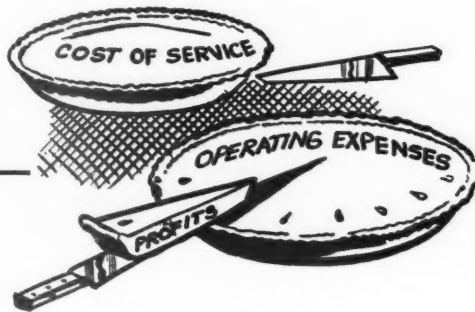
### "Fair Field Prices" as a Regulatory Base

**I**T is not necessary to debate the issue as to whether "fair field prices" also are in all respects determined in a free market under fully competitive conditions, and are therefore a satisfactory basis for the regulation of natural gas producer prices. Suffice to say here that they have not been accepted as such, at least to this time. And unless all interests are satisfied as to the adequacy of a regulatory method, regulation under that method can hardly be fully successful.



### Is the Answer Competitively Established Prices?

**"T**HE goal of utility price regulation . . . is to arrive at approximately the same prices for consumers in the utility monopolistic situation as would prevail were it economically practicable to have competition in these utilities. The question with respect to natural gas production is whether this goal can be achieved best under an administrative pricing procedure, substituting for competitive pricing, or directly by competition. Stated differently, in the case of natural gas production, is it not possible to bypass administrative price fixing and go directly to competitively established prices?"



## PUBLIC UTILITIES FORTNIGHTLY

### Competitive Bidding and the Natural Gas Act

THE rate determination principles stated in the Natural Gas Act are extremely broad, essentially consisting of the general requirement that: "All rates and charges . . . shall be just and reasonable . . ." [Section 4(a).] The commission "... may order a decrease where existing rates are unjust, unduly discriminatory, preferential, otherwise unlawful, or are not the lowest reasonable rates." [Section 5(a).] This is, of course, a legislative standard of such wide scope as apparently to vest great discretionary powers in the commission. However, the judicial doctrine of *City of Detroit*<sup>17</sup> has been widely interpreted as requiring a cost approach. In this case, to oversimplify a bit, the court rejected a producer price determination made by the commission on the basis of "fair field price," holding, in language frequently quoted, that

... Unless it [the conventional rate base or cost method] is continued to be used at least as a point of departure, the whole experience under the act is discarded and no anchor, as it were, is available by which to hold the terms "just and reasonable" to some recognizable meaning.

THE writer would refrain from making any legal interpretation of *Detroit*, even if he were qualified to do so. But two basic observations from the economic point of view may be made concerning this decision without infringing on legal grounds.

First, the court also held, in addition to the previously quoted statement:

... that if the commission is now to abandon the treatment historically accorded pipeline-produced gas in rate making on the ground that the ultimate public interest will be better served thereby, the commission should justify it on the record.

It is obvious that one of the purposes of this article is to present in outline form just such a justification. It is contended herein that the "ultimate public interest" is better served by competitive bidding than by cost.

Second, competitive bidding can be relied on to come closer to true economic cost (which is assumed to be the underlying objective of the court), than the conventional "cost" approach. To make this point, it is necessary to condense a good deal of economic theory.

OVERLOOKING short-run market fluctuations, prices under competition gravitate toward the cost of production, including the return necessary to attract capital. The statement that price is determined by cost of production is simply another way of saying that the amount of capital which is devoted to producing any commodity depends upon the relationship between prices and costs.<sup>18</sup> In the special case of joint products, there is no way of determining the separate costs of the products, but this same rule holds with respect to the production operation as a whole. The total cost of producing all of the several joint products (including the necessary return to the business owners) affects their prices in the same manner as does the expense of making a single commodity.<sup>19</sup> Thus, the sum of the prices of joint products will equal their total cost in the long run, the



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individual prices of the joint products being related to and fluctuating with their relative values and demands.

Under regulated competitive bidding for natural gas, a competitive natural gas price is assured. The unregulated market provides a competitive price for the other petroleum products. This combination brings into play the economic law just cited. The sum of the competitively determined prices of all of the petroleum products will equal the cost of production, including sufficient return on capital to induce the inflow of funds needed to finance the required level of exploration and development. This is as close as it is possible to come to pricing natural gas (or any other petroleum joint product) on the basis of costs.

### Recent Producer Rate Cases

THE Detroit case was decided December 15, 1955. More recent actions of the Federal Power Commission and the courts seem to indicate that the fallacy of the so-called "cost" approach is beginning to be recognized. In its Opinion No. 310, issued April 4, 1958,<sup>20</sup> the commission found that, at least under certain conditions, the traditional rate base or cost method produced "incongruous results" and could not be used to fix producer

prices. The administrative problem was "insuperable." The rate base method would be "contrary to the public interest." But the commission limited its indictment of cost to the specific circumstances prevailing in the particular case it was considering (involving eleven independent producers operating in one field where only a small portion of the rates of each company was being investigated). The commission did not disavow cost for other producer rate cases. However, Commissioner Connoles added in a separate statement, "The dilemmas, the frustrations, the contradictions inherent in the effort effectively to apply the classic rate-base-rate-of-return concept to the administrative solution of producers' prices in a field with multiple ownership and control were never more apparent than here."

PERHAPS more indicative of the future is the comment of the United States court of appeals for the fifth circuit in the Bel Oil Corporation case, decided April 23, 1958.<sup>21</sup> Here the court stated:

The regulation of the prices at which thousands of "natural gas companies" may sell to the pipeline companies is a difficult one at its best. It is a field which in many respects *requires new formulas* to test what is just and reasonable. . . .



"... the natural gas production industry is, by its very nature, already highly competitive. This competitive situation may be utilized as the real foundation for natural gas field price regulation. The suggestion of this article is that natural gas field prices be established under **open competitive bidding by producers**—under the same procedures which have been used for years in government as a safeguard of proper prices. This is a solution which is consistent with the competitive nature of the industry; it would take the regulation of the industry out of chaos; it would avoid indirect federal regulation of oil prices. But more than that, it would assure consumers a competitive price."

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We think it quite clear that . . . the commission might adopt *some pragmatic standard* to apply to these cases . . . (Italics supplied.)

The competitive bidding proposed is pragmatic, but it is also solidly founded upon basic economics.

**T**HIS same court reiterated and expanded its views in the more recent Forest Oil Corporation case, decided February 20, 1959.<sup>22</sup>

What we intended there [Bel Oil] to make clear, and what we now say, is: If the commission finds that a rate is reasonable to the consuming public it need not reject such rate as not being just and reasonable merely because it will yield to a particular producer more than the very minimum required by constitutional standards or more by way of net yield than is returned to another producer in the same well or field . . .

The court concluded as follows:

We do not think that either the commission or the petitioner should be baffled or handicapped in this new field of regulation by any formulas by whatever name they are known. Specifically, if there is an accounting or rate-making formula known to the public utilities industry as a "conventional rate base method of rate making" which the commission in its order of dismissal in this case said must be used at least as a basis of comparison or point of departure, we say the commission need not require it unless such method is the only way by which the commission can make its required determination. This is what we undertook to say in the Bel Oil opinion,

and it is clear that the commission recognizes that it is free to act thus by such of its opinions as 310 . . .

**I**T would not be fair to imply that the fallacies of the cost approach have not been noted earlier both by the Federal Power Commission and the courts. Detroit, as previously mentioned, was a reversal of an attempt by the commission to use the "field price" method. The commission, therefore, can hardly be blamed for leaning toward "cost" in its later actions.

As early as 1944, Mr. Justice Jackson, in his dissent in the celebrated Hope case, made the following comments with respect to the cost approach, which are even more pertinent today than when they were written:

. . . The service one renders to society in the gas business is measured by what he gets out of the ground, not by what he puts into it, and there is little more relation between the investment and the results than in a game of poker. . . .

In [previous] cases . . . the court assumed the rate base method as the legal way of testing reasonableness of natural gas prices fixed by public authority, without examining its real relevancy to the inquiry . . . As I see it now, I would be prepared to hold that these rules do not apply to a natural gas case arising under the Natural Gas Act.<sup>23</sup>

In another case, Justice Jackson described the results of using the rate base or cost method for natural gas pricing as "delirious" and "capricious."<sup>24</sup>

### The Identity of Interest of Producers And Consumers

**I**T is often thought that there is a fundamental clash of interest as between gas

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producer and gas consumer groups. Superficially, this may appear to be the case, but the view and its implications are erroneous.

It is true, of course, that in our free enterprise economy business flows from the "profit motive." A competitive business like the petroleum industry certainly is no exception. But the standard of living we have attained in these United States results because of the active competition of businessmen, each pursuing his own interests. Their collective efforts rebound to the benefit of the consumer. The greatest benefit which can be given to natural gas users is the *fullest possible measure of competition* among natural gas producers. A competitive price must be offered to stimulate such competition. Therefore, while a competitive price is what producers seek, this is not in conflict with the interests of consumers. It is also what consumers seek.

IT is possible that consumers may look upon lower-than-competitive natural gas producer rates as a benefit, a temporary bonanza. This is a shortsighted view. Because of the dynamic growth pattern of our economy, new capital is continually needed to supply growing demands for natural gas. Such new capital will not be forthcoming—and gas consumer requirements will not be met—unless rates are adequate to attract the investor's dollar. Consequently, over the long run, producers and consumers have a common concern to arrive at a valid pricing method. The best interests of both are served thereby. It is believed, therefore, that both producers and consumers would benefit from adoption of the easily policed, relatively easily administered, competitive bidding method.

On this score, it hardly needs to be pointed out that consumer interests are not best served by attempts to follow an unworkable method of regulation.

ONE further point: The competitive bidding method appears to be the only producer pricing method under which natural gas consumers can be sure that they are not subsidizing oil users, and vice versa. Neither group of consumers can benefit in the long run from subsidizing, or being subsidized by, the other. The millions of people using natural gas in their homes for cooking, heating, or both,<sup>25</sup> are being sold a bill of goods if they are led to believe that they will necessarily benefit more from lower natural gas prices than from lower oil prices. To demonstrate this, the householder using natural gas in his home is invited to compare his annual natural gas bill with his expenses over the year for gasoline and oil for his automobile.

The only common-sense solution is for natural gas and the other petroleum products to stand on their own feet price-wise.

THE proposed competitive bidding method would not, of course, be a panacea either for producers or consumers. If producers are looking for monopolistic profits, they would not get them. Neither would they get freedom from government regulation. The government would be active in its efforts to enforce a free market, and its regulations might often seem onerous to an industry filled with entrepreneurs who perhaps are our best modern-day examples of rugged individualism. By the same token, consumers would

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not get gas at less than a competitive price. But each group would sell or purchase, as the case might be, at a just and reasonable

price, and that is the purpose of price regulation of the natural gas production industry.



### Footnotes

<sup>1</sup> The Federal Power Commission reported that on March 1, 1959, there were 2,140 independent producer rate increases suspended and pending, aggregating \$92,198,078 annually. (FPC Release No. 10309, G-5388.)

<sup>2</sup> Omnibus hearing, in the matter of Champlin Oil & Refining Company, Docket No. G-9277(LC) et al.

<sup>3</sup> The Detroit case, currently considered to be the leading case on the use of the "cost" method, is discussed later.

<sup>4</sup> Many have engaged in the passing speculation of what principles of regulation might have been undertaken if the Interstate Commerce Commission or the Department of Interior had been designated the agency for the administration of the Natural Gas Act rather than the "original cost"-conscious Federal Power Commission.

<sup>5</sup> The *Lamp*, publication of Standard Oil Company (New Jersey), for the winter of 1957-58, p. 5, summarizes this situation as follows:

The average cost of a wildcat well today, according to the American Petroleum Institute, is around \$100,000, and only one out of nine discovers oil. Furthermore, the American Association of Petroleum Geologists estimates that only one in forty-four discovers a field of a million barrels or more, the size generally considered necessary today for a profitable operation, while only one in 427 discovers a field of 25 million barrels, and 25 million barrels represent about two and a half days' consumption in the United States. True, such a pool may return a fortune—but even with average luck a very large fortune may already have been spent in order to find it.

<sup>6</sup> Brief of El Paso Natural Gas Company, in the matter of Phillips Petroleum Company, Docket Nos. G-1148, G-11217 et al., before the Federal Power Commission, p. 25.

<sup>7</sup> *Ibid.*, p. 26.

<sup>8</sup> In this administrative pricing process, consideration is given, of course, to the fact that a monopoly status tends to reduce the risks of the business, which reduction in risk warrants a lower rate of return than would otherwise be the case. Thus, many utility security issues are rated next to governments on a risk basis (urban transport being a conspicuous exception).

<sup>9</sup> Sumner H. Slichter, professor of business economics, Harvard University, makes the same point

in the following words: "The regulation to which public utilities are subject is a substitute for competition." *Modern Economic Society*, Henry Holt & Company, New York, New York, 1936, p. 390.

<sup>10</sup> The goal is to prohibit higher than competitive prices. The goal is *not* to establish prices lower than would be established competitively. This is an important distinction.

<sup>11</sup> Subject, of course, to exceptions under special circumstances, where negotiation is permitted.

<sup>12</sup> Differences in competitive bidding regulations among the states are recognized, but are not of sufficient importance to the subject matter of this article to warrant discussion herein.

<sup>13</sup> The complexities which would be involved in applying a competitive bidding procedure are many and varied. A discussion of the detailed mechanics is, however, omitted from this article for the sake of brevity.

<sup>14</sup> Exceptions to the competitive bid requirement probably would be permitted under special situations, such as in the case of small sales, emergency conditions, etc.

<sup>15</sup> The commission policy might also provide that existing contracts might be rebid for the benefit of the producer, where the contract price was significantly out of line with competitive prices and the public interest would be benefited thereby. This would, however, probably be the exceptional case.

<sup>16</sup> In this connection it is assumed that the Federal Power Commission could require rejection of all bids and rebidding if in any isolated case the number of bidders was considered to be too small.

<sup>17</sup> *City of Detroit v. Federal Power Commission* (CA DC 1955) 11 PUR3d 113, 230 F2d 810, certiorari denied, 352 US 829.

<sup>18</sup> Sumner H. Slichter, *op. cit.*, pp. 302, 303.

<sup>19</sup> *Ibid.*, pp. 314-317.

<sup>20</sup> In the Matter of Pan American Petroleum Corp. Docket No. G-8549 et al. 23 PUR3d 176.

<sup>21</sup> *Bel Oil Corp. v. Federal Power Commission* (CA 5th) 24 PUR3d 512, 255 F2d 548, 553.

<sup>22</sup> *Forest Oil Corp. et al. v. Federal Power Commission*, Docket No. 16844 (CA 5th 1959).

<sup>23</sup> *Federal Power Commission v. Hope Nat. Gas Co.* (1944) 320 US 591, 649, 651, 51 PUR NS 193.

<sup>24</sup> *Colorado Interstate Gas Co. v. Federal Power Commission* (1945) 324 US 581, 608, 58 PUR NS 65.

<sup>25</sup> There were 23,206,000 residential natural gas customers in 1956. Source: *1957 Gas Facts*, American Gas Association, New York, New York, p. 82.



# What Was Our Image on Wednesday?

A company's image is not created by a single factor but by a building up of impressions. This was recently well illustrated in a pictorial report in Southern Bell's employee magazine, *Southern Telephone News*, which showed how public relations can be a vital factor when it becomes an accepted part of an average working day. Here is a story of what one utility is doing to create a good image in the communities the company serves.

By HARVEY G. BOOTH\*

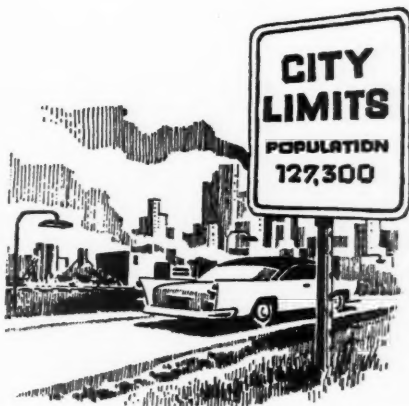
Vice President, Southern Bell Telephone and Telegraph Company

THE paradox of public relations in a utility is that we must overcome the old stereotypes of what public relations is and is not. It is easy enough for the average person in your company to believe that public relations begins with a news release and ends with a hand shake; and often with such a viewpoint, they can easily justify to themselves that it is therefore none of their concern.

To overcome this misconception, our company has been engaged in a program to educate our people on what public relations is, to explain to them how a company image is created, and to show that in the small, day-to-day experiences with customers our business gains and maintains the good will of the people we serve and the communities where we operate.

In order to emphasize the importance of good image-building on the local scene, we recently sent nine photo journalists out into the nine states where we give service to record an honest report of em-

\*For additional personal note, see "Pages with the Editors."



ployee activity for our company publication, *Southern Telephone News*. No situations were created; instead pictures were made of what was happening on a single day in our business in places as far apart as a south Louisiana oil town and a North Carolina industrial center.

THE pictorial report they brought back was not only interesting but also gratifying for it showed that we were making progress in our public relations program, that many of our local managers were creatively and enthusiastically working at the business of translating our community-centered program from ideas into action. The pictures showed telephone people maintaining service around the clock, sometimes to their personal inconvenience when, for instance, a cable failure had them up all through the night; helping with such diverse community activities as speaking at service club luncheons and pathfinding with local scout groups; doing all the natural, human things that people do who are family-

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minded and community-minded and service-minded. It reflected well upon our image, we felt, to have such fine people being such vital forces in their home towns.

And Wednesday, I must emphasize, was not an unusual day. It was an *ordinary* day and because of this we felt it showed a significant trend, that our people are coming to accept their rôle in image-making, or public relations. I do not mean to give you the impression that what happened on Wednesday made us feel that we had arrived, but only that we were making headway in dispelling the old fallacies of what corporate public relations is.

### Public Relations' Efforts Evaluated

**T**o re-evaluate our corporate image, we have recently taken an inventory of our entire program—fanning out from the basic information we had learned from oral and written criticisms from customers, newspaper comments, and surveys. One basic guide we have used for years is the customer attitude survey, conducted by an outside agency. In addition, we carefully studied depth surveys made among customers in our own territory and in other Bell system companies. We also had valuable material gained from planned customer interviews. As we analyzed the things people said about us, we found some new and startling truths about our corporate self.

For instance, we found that we did not have one but many corporate images—and that they changed as the customer had experiences, good or bad, with our company. We found that the customer's opinion was not static. Sometimes, the

attitude was better in one location than another. We found that some groups had better images of our business than others. And amazingly enough, we found that we had a dual corporate image. For instance, we found that generally the public saw the bigness and nation-wide character of the telephone business as a sign of efficiency and strength to serve. They thought of us as big, nationally. Locally, because our buildings and people are scattered in many different places, they sometimes thought of us as a small enterprise, compared to other businesses in their community.

**A**LL of our findings pointed out clearly that we needed to focus our main public relations activities on a local basis, building up community good will. Our problem then became one of telling our management people of our findings and of persuading them to re-evaluate their own responsibilities in the public relations program. We did this in many ways—through slide presentations, management bulletins, management training classes.

We also geared our general material for employees toward showing the individual telephone person what a strong influence he or she has in creating a good climate of customer understanding. In our employee group discussions, employees were stimulated to think about how the things they do and say create customer attitudes. Our company magazine began to give the employee more background facts about the business that would be helpful to him as he talked with customers on and off the job. We encouraged the employees to ask questions, to find out the whys and hows, because we are aware that employee understanding is a necessary part of good image-building.

## WHAT WAS OUR IMAGE ON WEDNESDAY?

### Good Service Is Key Factor

**I**N all of this, the point we have made and will continue to emphasize is that actually good telephone service is the starting point of our public relations program. Without good service, what we tell the public loses its effect. Our service must not only be technically good but must avoid any rigidity when an out-of-ordinary requirement by the customer demands an away-from-routine reaction from us.

Most public attitudes are grounded basically on personal experiences with telephone employees. Incidents, favorable and unfavorable, make a lasting impression. In fact, our service has been technically good for so long that it is often taken for granted. Small, extra things loom large in the public memory, and virtually all of these experiences involve personal contacts with employees.

Now, on the face of it, this seems like a pretty obvious fact and yet, by presenting it in the way that we did, we feel it has caused management people to consider not only whether they are maintaining high standards of service efficiency but if they are at the same time rendering a service that is personally pleasing to the customer.

Besides giving good service, we feel that our local management teams must keep their fingers on the pulse of the local community. Getting to know the local people through business contacts is one way; but to be aware of how the community feels about us, the local management team also needs to move out into community affairs. There are many organizations—civic and service groups, business and professional groups, educational organizations—that are fine meeting points with the community.

**M**EETING the customer outside the business not only gives the local manager an opportunity to evaluate public opinion but, at the same time, it gives him an opportunity to help with community problems—as an individual and as a representative of the business. We need to be alert to community needs and wishes, and flexible enough to act, if, in the judgment of local management people, we should.

In this way we recognize that community problems are our problems too. We feel that it is important to us as a corporate entity that we do share because we want to be a vital part of community affairs just as other businesses are.



**Q** "... we found that we did not have one but many corporate images—and that they changed as the customer had experiences, good or bad, with our company. We found that the customer's opinion was not static. Sometimes, the attitude was better in one location than another. We found that some groups had better images of our business than others. And amazingly enough, we found that we had a dual corporate image. For instance, we found that generally the public saw the bigness and nation-wide character of the telephone business as a sign of efficiency and strength to serve. They thought of us as big, nationally. Locally, because our buildings and people are scattered in many different places, they sometimes thought of us as a small enterprise ..."

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### Good Images Require Planning

**N**ow, of course, we have found through experience that building a good image in the community does not just happen. It takes local planning and it means insuring that the men on the local scene have the authority to carry through their commitments. If they have the authority and if they will co-ordinate their activities, they can do worth-while things.

Our business, for the sake of efficiency, is divided into departments that have specific functions; but the public is not aware or interested in this. They see us as one business unless, as it sometimes happens in an organization like ours, one department begins to pass the responsibility to another. We hope that on the local scene we can build up a feeling of one company, not a house divided. This means that the local managers of each department must work together in their public relations function.

All of our contacts in the community are important. Through personal contacts with employees, the public is informed. These are as vital in telling the public what we do, and why, as are our planned publicity programs—press releases, advertising, lecture demonstrations, talks, open houses, films, and family nights.

**I**n a general way, our public relations staff people are helpful in furnishing guidance to operating managers in the telephone business. We can share with them the knowledge we have acquired through the years. For instance, we know it is better to stress positive qualities but, at the same time, be frank. We know that we cannot base the program for keeping the public informed on just the information we think they should have. The local

managers must be close enough to the public and alert enough to sense what people want to know, and then give them information. We know, of course, the public forms opinions with or without the information we give them. Actually, beyond guiding the local group in a professional way, they are pretty much on their own—public relationswise—in their home town. The understanding a town has of our business ultimately rests with the local telephone people.

Basically, this was, and continues to be, our five-pronged program: serving, knowing, sharing, organizing, and informing on a community basis.

It is a public relations viewpoint that we have hoped to create among all of our telephone people. In many areas, where the local managers are consciously working toward these goals, we are beginning to see tangible results; we feel that it is important that the people who are doing a good job should be given encouragement and recognition.

### Public Relations Problems Are Many

**U**NDERLYING all of our efforts, of course, is a basic realization that in the public utility business we do have many public relations problems—and many publics. Certainly, we sometimes feel that we are a business on a tightrope. As we build our corporate image we have to consider the people who put their money into the business, the people who use our services, and the people who regulate our business and make our laws.

During the past decade, most of us in the public utility field have experienced unbelievable growth during a period of spiraling inflation. We have been confronted with many problems—many that



## WHAT WAS OUR IMAGE ON WEDNESDAY?

we will have to solve in the months to come. Today, as our business has grown and our equipment has improved, the individual contacts between customers and telephone employees have gradually been reduced so that now it seems harder for us to be recognized as a friendly, interested company. We have unattended community dial offices where we once had operators. Service interruptions are very infrequent and the average customer seldom, if ever, sees a repairman on his premises.

More than half of our customers now pay their bills by mail or through payment agencies and do not even find it necessary to visit the business office. Thus we find ourselves in the curious position of being bigger yet less seen, less felt by the public. Ultimately, this could hurt us unless we are careful to constantly remind the public that we are there. It could, if we are not on guard, come to think of our business as a large and automatic machine with a will of its own. Our efficiency and bigness could become more and more



## Public Relations Starts with Good Service

" . . . actually good telephone service is the starting point of our public relations program. Without good service, what we tell the public loses its effect. Our service must not only be technically good but must avoid any rigidity when an out-of-ordinary requirement by the customer demands an away-from-routine reaction from us. Most public attitudes are grounded basically on personal experiences with telephone employees. Incidents, favorable and unfavorable, make a lasting impression. In fact, our service has been technically good for so long that it is often taken for granted. Small, extra things loom large in the public memory, and virtually all of these experiences involve personal contacts with employees."



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synonymous in the minds of some customers with something to fear.

### Personal Contacts Important

**T**HAT is why we feel that every contact is an opportunity for building a picture in the customer's mind of a friendly, warm business. It is important that we dispel any notion the customer may have, because we are of necessity big and by design efficient, that we are impersonal and inflexible.

That is why telephone people need to be known in the local community. By knowing us, the customer can see that we are a group of people who work together for a common goal. As individuals, none of us could give a customer telephone service as he knows it today; as a group, working together, we can. It is hard to estimate the damage that could be done if the public is not kept aware that the character, the service, the integrity of a company, stem from the character, service-mindedness, and the integrity of the people in the business. Certainly, the in-

dividual customer has a warmer image of our business if he knows us as a business of people—with all the problems people naturally have.

**W**E are aware the customer does not invent the image he has of us; he merely recognizes one facet of our image or perhaps more than one, and assembles them in his own individual way. In our business, we have come to feel that the management team has the responsibility of being aware of the images we create and working toward improving our overall corporate image.

We want our communities to recognize telephone people as vital, hard-working citizens. This, the community can respect. In our neighborhoods, we need to be good neighbors.

And, on the job, we want the customer to feel the sincere concern we have about his getting the best telephone service possible—friendly, flexible, natural, and, at the same time, efficient and at a reasonable price.

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**"I**f we continue to be unable or unwilling to face up to the hazards of unsound public and private policies in our efforts to restrain inflation, then we do indeed face renewed efforts to expand various credit controls, perhaps not only with respect to instalment credit, but also in other directions as well—housing, inventories, plant, and equipment expenditures.

"If we are serious about maintaining the value of the dollar and achieving continued growth in our economy, it is imperative that general monetary measures be supplemented by sound public and private fiscal policies. . . .

"... we [bankers] must strive to continue the improvement of standards of performance which have already been achieved . . .

"The level and distribution of personal incomes are capable of providing mass markets for our increasing productivity. Mass distribution is required, but cannot be accomplished without some type of instalment credit. In our type of economy, the important rôle of instalment credit is undeniable."

—JESSE W. TAPP,

Chairman of the board, Bank of America,  
Los Angeles, California.



NEVER SAY

## “Lobby”...

By JAMES H. COLLINS\*

Still, under new names, they exert pressures, and some old Washington hands wonder if our postwar economy is being built too much to pressures. Utilities have to build to plans. Might their planning offer a new kind of community relations?

ANYBODY who likes Balzac knows that he was definitely cops-and-robbers, and never wrote a novel more fantastic than the life he lived himself.

Once, Balzac built a house in a suburb of Paris. It was what we now call split level, on a hillside. The stone boundary wall he built kept tumbling down on his neighbor's garden, putting him to expense, and he changed his plans so often that there was more expense.

As each room was finished, Balzac furnished it with furniture from European palaces, and paintings from famous galleries, chalking in where each was to go. He was an art collector, and enthusiast.

Finally, when the builder turned over the job—and probably glad to do so—it was discovered that no staircase had been provided. You came in on the upper story, and there you were.

To the imagination that conceived “*The Splendors and Miseries of Courtesans*” that was no problem. Balzac just had the stairs built outside.

\*Professional writer, resident in Washington, D. C. For additional personal note, see “Pages with the Editors.”

Is America building such an economy?

WE were wondering, here in Washington. We are old Washington hands, correspondents, bureau fellows, assorted writers, accustomed to surveying the state of the nation, and delivering judgments upon it—sometimes, unfortunately, predictions!

Along the Potomac we see a good deal of lobbies, and their pressures.

It seemed to us that, thus far, postwar America has been abuilding more to pressures than to plans.

We thought we detected a faint but growing popular interest in plans.

And we were scuttlebutting in this area with a public utility company standpoint in mind:

In the headlong growth of America the past dozen or more years, utility management has perhaps done more planning than other agencies. It has had to. A utility company must grow with its community, and ahead of it. New plant will be needed, and it must be located where and when it is needed, and earn revenue.

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Otherwise it will be the house without a staircase, and Wall Street will not lend on mortgage.

We thought that if the utility view of community growth were held up to citizens; that is, utility management took a stand for the community, and insisted that the well-built, balanced community was the thing to be considered, no matter what pressures were brought . . .

We thought that this might be a fresh angle for utility public relations, and a good thing for utility companies.

### We Are All Born into Lobbies

**I**N Washington, "lobby" is a dirty word. You never use it. The place might be bugged. There is always the chance that somebody working for a lobby is listening in. Long ago, they became associations, federations, foundations, research institutes, congresses, brotherhoods. More recently they have come to include unions, and various groups and movements extending into various economic, social, cultural, ethnic, and even religious fields.

We spoke of them as "loyalties."

A lobby is an organization set up to get something, or see that nobody else gets it. It can be a modest, temporary thing, vanishing when it has got what it wanted, or a massive, permanent "bloc," financed and staffed to look after its interests all the time. Large or small, it will be distinguished by its singleness of purpose. With all its heart and soul, it goes after what it wants, and the devil take the unorganized.

(Please do not quote us on this.)

If you regard a lobby as a "loyalty," and call what it wants as a "cause," you give it face, and can talk about it freely, in Washington or state capitals.

We went back to the Pilgrim Fathers, tracing the origin of loyalties.

"They lived in simpler times," said one. "They came to the wilderness to escape persecution. They had a primary loyalty only to their faith, based on their understanding of the English Bible."

"Yes, the simple souls!" said another. "And in a little while they were burning witches and hanging Quakers."

**S**oon, other loyalties sprang up, as colonial life became more complex. There were Tories and Patriots. The Tories had property and jobs; the Patriots ganged up and took them, and are now shining figures in American history. The Tories were, presumably, loyal to the Crown. The Patriots were, presumably, loyal to their newly founded free institutions.

"Some time when you are in Toronto," was suggested, "talk with some of the United Empire Loyalists up there, descendants of the Tories. It is like taking a Daughter of the Revolution out to lunch—in reverse."

And so American history has accumulated all kinds of loyalties, some increasingly in conflict, to North and South, free trade and protection, wets and drys, gold and silver standards, farm and city interests, private and public enterprise, gas and electricity. Even where they do not conflict they compete with each other for your time, as when your service club dinner comes on the same evening as the Parent-Teacher Association.

Counting your own "loyalties" is an interesting mental exercise. You will find that you cannot be born without one or more, and that your interests are probably represented by a lobby.



## NEVER SAY "LOBBY" . . .

RECENTLY a sociologist and a psychiatrist made a survey of as American a community as you could pick, New Haven. They were concerned with mental illness in people of different social levels, and found that New Haven has five classes, firmly fixed.

First, there are the old families, business and property owners; then their managers; their salaried employees; their wage earners; and, finally, the unskilled tenement dwellers, often of foreign birth or lineage.

Their yardstick were three: Where a family lived, what its head did for a living, and how long he had gone to school.<sup>1</sup>

Which indicates that it would be impossible to be born outside a compartment in New Haven, and probably in America generally.

You are born in your class, and are supposed not to let it down. Add race, school, college, church, party, profession, business, sports, hobbies, cultural interests, for yourself, wife, and children, and you have numerous organizations to which you contribute, and work for, in Washington and elsewhere.

Even if you are left on a doorstep, you start life with a loyalty to the orphanage!

In Washington, even the animals have lobbies, as was shown when Congress

passed a law requiring anesthesia in meat packing plants. There may be another animal lobby foreshadowed in the sending up of a monkey to explore space, to determine conditions for human beings. Gordo was never recovered. The monkeys are not going to like that. Already, space scientists are nervous, have banned two dirty words—monkeys and apes are now referred to as "primates." The Pentagon would undoubtedly think hard before sending up an American dog. The rodent lobby (rats, mice, squirrels) still has not made much of a stir. But give it a chance. There are thousands of kids who watch Mickey Mouse TV programs with "Mickey ears" on their heads, all ready and waiting to be appealed to on this front.

We are all born with loyalties, live with them, leave them money in wills, have difficulty in extricating ourselves from them when they clash.

Just the other day, outside Washington, an industrious citizen was discovered exerting a one-man pressure. He does not like Jews, and was printing and circulating pamphlets telling why. When a newspaper referred to him as an anti-Semite he was indignant.

"Why, the Arabs are Semites," he protested, "and I like Arabs!"

THE bills for Balzac's house were doubtless added to his lifelong load of debts. Balzac was the first novelist to

<sup>1</sup>"*Social Class and Mental Illness: A Community Study*," by August B. Hollingshead and Fredrick C. Redlich, John Wiley & Sons, Inc.



WHAT thoughts are arising at the utility level was shown last fall when California voters were asked to pass upon more than a billion dollars worth of new bonds, for necessities created by that state's phenomenal growth of population and industry. More schools, colleges, highways, harbors, hospitals, prisons, government agencies, and buildings to house them. The *Los Angeles Times* suggested that California might be coming apart at the seams, but advocated a "Yes" on all of them. Two years hence there will be more."

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write about business, and lost money as fast as he could earn it in fantastic business schemes.

### Questions Cropping Up about Our New America

SOME of the bills for our postwar America are beginning to come in, and are raising questions for which utility people might help find answers.

For example, are we going to have enough money to build everything everybody wants?

Are we spending money for the right things?

Suppose we can build everything that everybody wants, will anybody have the time, energy, and zest to enjoy it all?

Such questions are being asked in utility companies' territories.

Not in Washington. Here there is loud talk about the wickedness of spending, and demands that it be reduced. But it is always one pressure group charging that some other group's extravagance is feeding the fires of inflation, or throwing the economy off balance. The denials are instant, automatic, and unvarying. Russian students of American culture might learn useful party-line techniques from our lobbies.

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that California might be coming apart at the seams, but advocated a "Yes" on all of them. Two years hence there will be more.

Depressing and challenging are the conclusions arrived at by the magazine *Fortune's* editors, in a recent book reporting that a blight is gutting our big cities and spreading over our countryside.<sup>2</sup> In the Los Angeles region some 3,000 acres of fields and groves are being bulldozed daily for new suburbs. There is talk of a continuous city from Santa Barbara to San Diego, and such talk is not western exuberance—there is talk of a continuous city along the Atlantic coast from Portland to Norfolk.

How people are going to get around such cities, much less live in them, is getting little more consideration than how they are going to get to the planets, and live.

THIS generation will not remember, because it was not born, the freedom gained by the average American family when it got its first car, after the Kaiser's war. It was a limited freedom, because there were few modern highways to drive on. From Chicago, the only Sunday ride was to Milwaukee.

Today, freeways cannot be built fast enough for the two-hour drive to and from factory or office. For the company president and the shop hand alike, taxi-tooling is a "must," imposed by the exploding metropolis.

In New York a battle has been going on in historic Washington Square, where the first American daugerreotype was taken on a sunlit roof, and generations of

<sup>2</sup>"*The Exploding Metropolis*," by the editors of *Fortune*, Doubleday & Co., Inc. New York, New York.

NEVER SAY "LOBBY" . . .

## Organized "Loyalties"



"IN Washington, 'lobby' is a dirty word. You never use it. The place might be bugged. . . . Long ago, they became associations, federations, foundations, research institutes, congresses, brotherhoods. More recently they have come to include unions . . . We spoke of them as 'loyalties.' A lobby is an organization set up to get something, or see that nobody else gets it. It can be a modest, temporary thing, vanishing when it has got what it wanted, or a massive, permanent 'bloc,' financed and staffed to look after its interests all the time. Large or small, it will be distinguished by its singleness of purpose. With all its heart and soul, it goes after what it wants, and the devil take the unorganized."



New York youngsters have gone to the city college.

A motor highway through the square is now advocated, as a traffic necessity. It is opposed by citizens willing to sit in post holes. There are suggestions that Fifth avenue be turned into a one-way thoroughfare to ease midtown traffic.

Our communities seem to be running out of square feet.

Not so long ago a man going to work required about a dozen square feet

of area, on sidewalks and in trolley cars. There was no parking problem.

Today he drives alone, surrounded by ten times the square footage of sheet metal, slowed down by other solitary drivers. He has to have more and more space to leave his car while he works. He is barred from downtown areas.

As the cars get bigger, Detroit insists that this is what he wants.

It must be true, what the educators say, that this generation is neglecting "math," especially geometry.

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**H**APPILY, in our scuttlebutting about lobbies, we felt no responsibility for placing blame or concocting remedies. There is an old print, still remembered, showing a shattered water pitcher on the ground, and an angry schoolmaster demanding to know who did it. A large circle of schoolboys, each pointing to the lad ahead of him, says "He did it!"

All we had in mind was to call attention to a growing popular interest in better community information, and planning, in the building of our new America.

Utility management and other business leaders may have information of great interest to their communities. We feel that there is a growing audience for such information.

### Will the Innocent Bystanders Ever Revolt?

**A** GOOD question—a very good question—to start conversation anywhere, from the top brass to unskilled workers is, "What would it mean to you if you lost two or three weeks' pay?"

We discussed that, and there were fellows there who had experienced such losses in the New York newspaper strike.

"Who, me? Not likely, with the company I work for," is the usual answer. "We're in a solid, developing line—electronics. I've just had a raise."

But it is happening to more and more innocent bystanders, as side effects of today's highly organized labor pressures. The rights and wrongs of labor questions were something we ignored. They are too involved. They are definitely in the lap of Father Time, and his decisions will undoubtedly be surprising.

All we were interested in is innocent

bystanders as a remarkable audience for more adult community information. It is an audience to which very little attention has been paid, as yet.

Once, labor disputes were mostly local, a matter of wages between one concern and its employees. Labor organizations were not well-financed, sympathetic strikes and boycotts were little known, strike-breaking was brutal. There was a popular sympathy with strikers, as underdogs. It was said that the strike was labor's only weapon against exploitation, that it must be defended, that labor had to protect its gains, was to be commended for endeavoring to better its condition.

Today, labor organizations are well-heeled, tightly interlocked, directed by good executive brains. The old-time strike was a small war. The present-day strike is a major war, for which massive forces are marshaled, months ahead. Even while one objective has been gained, plans are being laid for new demands at the expiration of the just signed contract.

**F**ROM the military lingo of other days one occasionally hears the comparison, "Bringing up a battery of guns to knock down a pigsty." Many of the current labor battles have that character. Nobody seems to pay any attention to the size, strength, and side effects of the conflict.

To illustrate with the New York newspaper strike:

A small group of employees decides that it wants more money. After the usual preliminary bouts of demands and refusals, this group votes for a strike and throws out picket lines. Thousands of other workers in that industry, belonging to various unions, refuse to cross the

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picket lines. They have no grievances of their own, are under contract to go on working, would work under disaster conditions. But they are involved by interlocking organizations.

Still other thousands without union connections are thrown out of work, and pay. New York's Christmas mail was sorted by reporters, linotype operators, and other skilled newspaper people because the little added income was welcome.

Had anybody told these people, the previous Christmas, that they would be glad to land such jobs, nobody would have believed it.

THESE were the innocent bystanders directly affected by the stoppage of New York's papers. Thousands more were indirect losers. Newspaper advertising is a vital necessity in promoting the Christmas trade of retail stores. Millions of dollars of newspaper revenues were lost, advertising agencies suffered, even subway traffic showed the effects. Losses were reported by employment agencies, dependent on want ads in placing people; real estate concerns whose transactions were reduced for the same reason; clipping bureaus and wastepaper dealers. The extent to which we all live by taking

in each other's washing is not realized until some such interruption occurs.

Still other innocent bystanders were hurt in Florida, where the Christmas registrations fell off as much as 20 per cent; by travel agencies and transportation companies. No New York newspapers meant a drop in the demand for newsprint, and Canadians were laid off in the lumber woods.

FOLLOWING up all the side effects of such a strike, by industries, and in family budgets, would be an intriguing economic project. Nobody seems to have done it. The intricate economic machine by which we all live suffers a breakdown. Everybody sighs in relief when it is got going again.

It was over in New York when the striking splinter of the newspaper industry settled for about what had been offered in the first place. The striking organization blamed the publishers for not trying to understand its viewpoint. The newspapers wrote off their losses. Bystanders went back on payrolls, hoping that no more wrenches would be thrown into the intricate machinery by which we all live—though other strikes were in progress then, and a dour list of possibles was being drawn up for this year. Trouble



ONCE, labor disputes were mostly local, a matter of wages between one concern and its employees. Labor organizations were not well-financed, sympathetic strikes and boycotts were little known, strike-breaking was brutal. There was a popular sympathy with strikers, as underdogs. It was said that the strike was labor's only weapon against exploitation, that it must be defended, that labor had to protect its gains, was to be commended for endeavoring to better its condition. Today, labor organizations are well-heeled, tightly interlocked, directed by good executive brains. The old-time strike was a small war. The present-day strike is a major war, for which massive forces are marshaled, months ahead."



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in major industries, certain to hurt unsuspecting people in every corner of the land, things to start worrying about.

It is only fair to say that not all the pressures here in Washington are applied by labor. Last year we had an amusing squeeze on one innocent bystander, the Postmaster General, no less.

Detroit's Willow Run airport is said to be the furthest out in the United States, 35 miles. At war's end Uncle Sam sold it for a dollar to the University of Michigan. Wayne county had an old airport, 12 miles nearer, which was remodeled and named Detroit Metropolitan. When it began to attract airlines, friends of the university—it is said—went to work on Secretary Summerfield to block a postal station at the new port.

### Wanted—A Score for Business Climate

**I**NNOCENT people are hurt, lose their lives and property, by hurricanes, earthquakes, droughts, floods. These are called blind forces of nature, and research is directed toward learning more about them, for forecasts, protection, perhaps prevention.

The disasters caused by organized pressures might be called blind forces of human nature. Hardly any comparable research is being done.

Our economy is tough. No matter how the pressures are applied, it survives, and there is always more health in it than trouble. Maybe it is because the pressures and counterpressures are so varied as to offset one another, in a rough way, so as to avoid extreme bias. To thousands of people last Christmas it seemed sick, and yet, except for 1957, last year was notable for having lost fewer man-hours by

strikes than any other postwar year. Secretary Mitchell thought, in announcing these figures, that there might be signs the labor boys and management boys were beginning to grow up.

**I**N New York state's elections last fall Governor Rockefeller was helped by a new catchword, "Good business climate." He stemmed a strong political tide running against him by going with what appears to be a current going the other way.

This current may be useful to utility management. If it sets its course with it, it will find others going along. Not only people hurt by pressures, but pressure agencies themselves—there are slight but significant items to that effect in the news.

Some 250 employees of a Long Island concern, making cotton-tipped swabs, struck for a 10-cent raise. As routine strike procedure, they asked other unions to boycott the company's product.

Then, evidently, somebody got to thinking marketwise. Suppose, instead, the product were bought by unionists. Increased sales would lead the company to put on more workers, volume would provide the wage increase. That union launched a modest advertising campaign to increase sales.

In larger industries, labor executives are beginning to think marketwise, discovering that their fight for higher wages is not with management, but with the consuming public.

**F**OR an example, men's hats. Men have been going bareheaded to such an extent that the hat industry is crippled. Hat manufacturers are meeting this problem by designing raffish hats—the badger-hair

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### A Workable Motto

"EIGHT score and twelve years ago, now, our fathers brought forth on this continent the document under which we have lived ever since, with turmoil. . . . But under that document we get along somehow, and associated with it is a motto that, somehow, we have remembered—so far. United we stand, divided we perish. In a community pestered by pressure, it might be a good motto for utility management to adopt, and patiently hold up. They might even get across, eventually, the patently true message that what is good for the community is good for the utility. And who knows but that eventually there may even come about public recognition and acceptance of the message that the reverse of that proposition is equally true."



shaving brush of other days is now miniaturized in a yodel-type man's hat. Hats are being concocted for different occasions, formal, loafing, sports—if a man follows the persuasions of hat makers he will soon have a closet full of head wear.

Hat makers' unions are co-operating in this promotion. They may talk tough to the manufacturer, but to the public they and the bosses are pals in promoting the extra dollar's worth of gross business. The other day a local hat makers' union invested \$300,000 in a distressed hat company, to save 325 jobs. Several years ago that union lent \$200,000 to another hat company, all of which, except \$25,000, has been repaid.

SOMETHING of the same kind is developing in men's shoes. News items constantly crop up about pressure groups, sawing away at limbs, discovering that they are sitting on the same limb.

Could utility management, and other business heads, contrive a score to register the economic health in their communities, to offset pressure headaches?

People love scores. Note how reporters on quiz panels ask, again and again, "Who is ahead—us or the Russians?" People do not argue about runs, hits, errors.

There are some interesting trends, such as the way new telephones reflect personal income. An industrial economist has worked out statistics for different sections

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of the country, indicating that the telephone is an actual creator of wealth, a tool that the community uses to make more money.<sup>3</sup>

There must be similar relations between community income and other utility services. Electricity and gas are also tools.

RECENTLY, what may be the first weather bureau for business climate has been formed in New York state's Niagara region. A manufacturer there had a decision to make, between enlarging his plant, or building a new plant in another state. Local labor interests were hostile. He worked it out with them, enlarging present plant, but was bitter about the total indifference of state government people and business associations in straightening out the situation.

Whereupon, with other executives in that region, he formed the first "Business Climate Appraisal Committee," to look into conditions. Its objectives seem to be important in any business community.

For example, the facility with which business can be carried on, or otherwise, according to intelligent local rules—or otherwise. The manufacturer who started this movement has had difficulty in hiring engineers from other states. New York state income taxes make bad weather there.

What are the comparative costs of doing business in the community? What kinds of skills are available? What is the industrial citizenship—are business concerns active in community affairs, or is

there absentee ownership? What sort of place is it to have a job, live, bring up children? How do small business concerns fare? What kind of planning is being done for growth?

Et cetera.

### An Old, Workable Motto

EIGHT score and twelve years ago, now, our fathers brought forth on this continent the document under which we have lived ever since, with turmoil.

That was a hot battle of loyalties! There were clashes between the states, the haves and have-nots, the rank and file of the late war. George Washington himself presided, but was suspected of aristocratic ambitions.

Not all the appointed delegates attended the convention, and not all who did were willing to sign the document when ready for submission to the states. There were only fourteen then, perhaps luckily.

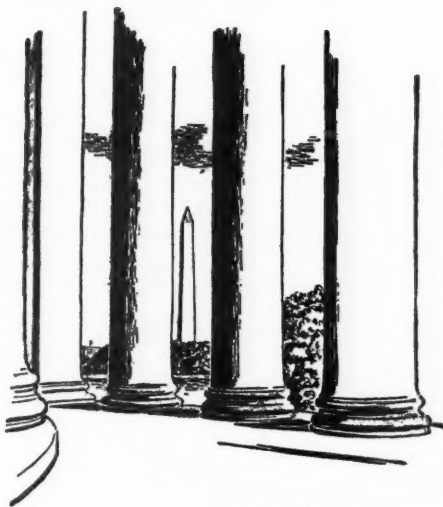
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<sup>3</sup> "Telephone Statistics, the Nation's Economic Stethoscope," by Alexander I. Warrington, *Telephony*, January 3, 1959.

## Washington and the Utilities



### *New Atom Plant Formula?*

THE proposed construction of a series of nuclear plants by the Atomic Energy Commission under a 50-50 co-operative arrangement with private industry was recently announced by Chairman John A. McCone. He told a hearing of the Atomic Energy Subcommittee of the congressional Joint Committee on March 25th that under this plan the federal government would pay half the cost of some privately owned nuclear reactors.

Representative Chet Holifield (Democrat, California), chairman of the Legislative Subcommittee, told McCone that he personally was not sold on the capital grants. The formula, he said, might set a precedent which would have a far-reaching effect in government. The subcommittee concluded hearings on the atomic energy program for the coming fiscal year, calling for new construction projects totaling \$115.5 million.

McCone said that although the authorization bill limits capital assistance to construction of the boiling water reactor, the AEC contemplates construction of a series of plants under such a co-operative arrangement during the next several years.

The commission, he said, will determine the type and size of the plants and will retain a "substantial degree of control over the design, construction, and operation" of the plants. The prototype plants will provide the information needed to determine if various types of reactors are feasible for large power plants, McCone said.

The government will invite private power companies and co-ops to build the plants and provide up to 50 per cent of the needed money, McCone explained. Included will be the cost of the site, the reactor, and generators.

McCONE spelled out the restrictive conditions attached to the co-operative prototype nuclear plant plan. In no case, he said, will the cost of the power group be less than the cost of building a conventional plant. Also, the private owner will be unable to include the commission's investment in the capitalized value of the plant for setting rates. Just what view the state regulatory commissions might take of this arrangement was not touched upon. The AEC's assistance will not be used as competitive subsidy to undercut the price

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of conventional electricity in any area, McCone emphasized. The information obtained from the building and operation of these prototype nuclear plants, he said, will enable the industry, as well as the AEC, to determine what types of reactors are feasible for large power plants.

### Progress on Atom Plants

**E**VEN with federal assistance, it will take a considerable amount of ingenuity to bring the cost of nuclear power down to competitive levels with conventional power plants. This was recently stressed by Joseph M. Harrer, associate director of the reactor engineering division of the Argonne National Laboratory. Speaking to a joint Chicago meeting of the National Rural Electric Co-operative Association and the American Public Power Association, Harrer pointed out that 25,000-kilowatt plants, such as the Argonne experimental boiling water reactor, are a practical size for rural areas but they still cost far too much. He said that they would originally cost about \$3 million more than comparable conventional plants, which makes them too expensive for general use.

"Without an immediate scientific breakthrough—which seems hardly probable—the problem of bringing atomic power to the consumer is in the hands of the engineers and the accountants," Harrer said. He pointed out that much of the added cost of nuclear plants represents the need for better, safer equipment.

In an effort to lower operating costs, AEC is asking private industry for proposals for designs on nuclear reactors using superheating processes. AEC scheduled a public hearing for April 9th on the financial resources of Yankee Atomic Electric Company, which is building a \$62 million nuclear power plant near Rowe, Massachusetts. Industry offers to design a nuclear superheater must be filed

with the AEC by April 20th. The commission said it plans to award a cost-type contract for research and development of concepts and materials most suited for a reactor using nuclear superheat.

**S**UPERHEATED steam, many times hotter than ordinary saturated steam, which has a constant temperature of 212 degrees Fahrenheit at sea level, is produced by running saturated steam through a superheater until all the water is vaporized. Most conventional oil- and coal-fired power plants use superheaters to boost generating efficiency. So far, however, nobody has yet built a nuclear superheater—one using atomic fuel instead of coal or oil.

If nuclear superheaters are possible, they might open the way for cheaper atomic power by permitting the use of simpler and more efficient turbines. Increased efficiency, moreover, might mean less fuel would be needed to power the plant—an important consideration when that fuel is costly uranium.

Allis-Chalmers is said to be thinking about incorporating a nuclear superheater in an atomic power plant that it is building for Northern States Power Company. General Electric is reported considering nuclear superheat for one of its plants. Experts are hopeful that superheated steam will lower the cost of atomic electricity by a couple of mills. However, unless there are other breakthroughs, even the superheater process for nuclear plants will not make resulting energy competitive with coal- and oil-fired systems.

### *Accord on Columbia River*

**T**HE International Columbia River Engineering Board has announced that the last major difficulties, in the U. S.-Canadian development of the Columbia river basin, have been ironed out. The



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group has stated that there are "no serious conflicts" remaining over the joint development of the water resources in the basin. A recommendation has been made by the board for the construction of power plants which will produce 16 million kilowatts of power. These plants would be built on the Upper Columbia and the Kootenay rivers and would be operated under an international agreement. In the past there have been heated differences between the United States and Canada over the future of the river, which flows through the two countries. The board's recommendations will be submitted to the International Joint Commission, a U. S.-Canadian agency.

Of course, such an agreement would be in the nature of an overall division of authorization. Further action at the domestic level in both countries would be necessary to work out plans or details as to who would build or operate what facilities. The usually thorny question of private company or federal development of facilities for the United States remains to be answered in the future by congressional or regulatory licensing action.

**A** COMING political decision by Canada will shortly provide the answer to the quest of industrial Midwest states like Michigan for new and increased supplies of natural gas. If it is favorable—and federal power experts believe it will be—Canadian gas will flow into the factories and kitchen stoves and household furnaces of Wisconsin, Minnesota, Michigan, and other northern border states.

The question Canada is debating is whether its gas resources in Alberta are sufficient to permit exporting into the United States. To boost Canadian industries, the conservative government of Prime Minister Diefenbaker is still pledged to a "Canada First" program

when it comes to ladling out natural resources. But Alberta Province is urging that Diefenbaker and his advisers recognize the "almost inexhaustible" supply of Canadian gas and capitalize on the hungry American market. Governmental and diplomatic sources in Washington expect the answer will come before Parliament adjourns in Ottawa on July 1st.

Prior to its last change in government, Canada was supposed to be set to approve a plan whereby Trans-Canada Pipe Line Company would bring gas down from Alberta fields through Emerson, Manitoba, and into Minnesota. But the shift in political climate in Ottawa held up the plan. An "easing" of the political situation is expected to come when a joint Canadian-U. S. panel issues a pamphlet in the near future analyzing a co-operative tapping of the immense Canadian gas fields.

American pipeline companies are showing a continuing interest in obtaining Canadian gas, despite international complications. One of them is Michigan Wisconsin Pipe Line Company, which supplies gas from southern fields to its sister firm, Michigan Consolidated, and also serves markets in Wisconsin. Last November, Michigan Wisconsin advised the Federal Power Commission that it would like to "assist in ultimate importation of Canadian gas in a way which will benefit all gas consumers in the Middle West."

### *Bonneville Rates Inadequate*

**T**HE Bonneville Power Administration's annual report was issued at Portland, Oregon, on March 26th, and it contained some surprises in its discussion about the inadequacy of the present Bonneville wholesale power rate. The outstanding feature of the report was the reference to the approaching deadline for the top-level decision (probably by the In-

terior Department) on whether such rates should be increased.

The Bonneville Power Administration is shown to have lost money for the first time since it went into operation back in 1939, because of inadequate revenues to take care of all of its obligations under present rate schedules and financing setup. Last November it was announced that even greater losses (than experienced in fiscal 1958) would be incurred within the next two fiscal years unless the present rate of \$17.50 per kilowatt year is boosted.

In his annual report, BPA Administrator Pearl stated that a decision on a change has to be made before July 1st if rate alterations are to be made by December 20th, the adjustment date in Bonneville contracts. This does not necessarily mean there will be an increase. Since the first Columbia river power was produced twenty years ago, the wholesale rate has been \$17.50 a kilowatt year, which has averaged out at 2.36 mills a kilowatt-hour. There are pressures to maintain this, despite a loss of \$2,949,501 last year on a gross of \$66,729,110 and forecast of losses of \$5.5 million this fiscal year and \$6 million next.

**A**MONG proposals to offset the losses is one to use a surplus of \$76,345,213 which Bonneville has built up by repaying the federal Treasury ahead of schedule for capital the government has invested in the system. This surplus could absorb losses of the \$17.50 rate for several years. Thus far, 15.7 per cent of the capital invested in the system has been repaid, in addition to paying \$141 million for operation and maintenance and \$189 million in interest.

Administrator Pearl said the increasing deficits will come from greater expenses and addition of higher-cost generating plants.

## *Foreign Bid Studied*

**T**HE Office of Civil Defense Mobilization will make an investigation into the imports of large steam turbine generators, under the provisions of § 8 of the Trade Agreements Extension Act of 1958, Director Leo A. Hoegh has announced. This action was based on requests by General Electric Company and Westinghouse Electric Corporation. Both organizations contend that contracting to buy foreign types of highly specialized electric equipment could endanger the nation's security.

They claim that only the manufacturer could supply the dies, parts, and knowledge of the equipment necessary for repairs and that a war or a national emergency might well make such services unavailable. The OCDM Director, under the law, is now required to ascertain whether the award by TVA of a turbogenerator contract to a British firm is prejudicial to national security.

Replying to the recent accusation by the United Electrical Workers that both Westinghouse and General Electric had destroyed more than 700 job opportunities by overbidding on the TVA turbogenerator contract, thus allowing it to go to a British firm, a Westinghouse spokesman has commented that "The United Electrical Workers have done a disservice to their own members and to the national security with their absurd charges of 265 per cent profits in the American electrical industry." The Westinghouse statement explained that the UEW had taken an isolated man-hour figure representing a small part of total employment costs, multiplied it by an industry average wage, also incorrect in this case, and finally applied a mythical productivity advantage favoring U. S. heavy electric industry.

# Telephone and Telegraph

## *Monster Stockholder Meeting Planned*

THE American Telephone and Telegraph Company moved its annual meeting, April 15th, to larger quarters.

Share owners who said they planned to attend were notified that because there were so many of them, the meeting would be shifted to the Kingsbridge Armory, 29 West Kingsbridge Road in the Bronx. The usual meeting place in recent years has been in the company's building at 50 Varick street in downtown Manhattan.

The largest attendance at a previous AT&T annual meeting was in 1957, when the Varick street meeting room, which holds more than 2,500, was filled to capacity. The company expected that several times that number would attend this year's meeting. Some 25,000 expressed an interest in coming.

While AT&T did not expect all 25,000 persons to attend, it was counting on about 7,500. At that rate the meeting would be the biggest stockholder meeting on record. The General Electric Company and the Standard Oil Company (New Jersey) have played host to about 4,000 in past years.

Tickets to the meeting and instructions how to get there, including a map of New York city transit lines, were mailed to the 25,000 shareholders who have expressed



an interest in coming. According to past experience, less than 50 per cent of the shareholders who indicate they will attend actually arrive.

## *Court Dismisses California Rate Appeals*

THE U. S. Supreme Court has dismissed an appeal from the California supreme court which upheld the right of the California commission to grant so-called "interim increases" to a number of telephone companies in that state without formal notice or hearings. The court said that there was no "substantial federal question" which would warrant the highest court reviewing the action of the state court.

The companies involved in these appeals—which were taken by the cities of Los Angeles and Long Beach—were Pacific Telephone & Telegraph Company, General Telephone Company of California, Sunland-Tujunga Telephone Company, and California Water & Telephone Company. Mr. Justice Black, dissenting, thought that the U. S. Supreme Court should have reviewed the whole question.

These California rate cases were started in 1957 with the filing of rate increase applications. But while the hearings were still in process, Pacific Telephone & Tele-

## PUBLIC UTILITIES FORTNIGHTLY

graph Company moved for an "interim rate increase" on grounds that some measure of rate relief was needed right away without further delay. The independent telephone companies joined in this plea, and the commission agreed.

Los Angeles and Long Beach contended that this amounted to practically a new case in which all parties should be entitled to notice and opportunities to be heard, and so forth. But the California commission disagreed, pointing out that rate regulation is a legislative and not a judicial function. Thus the commission may act at any time without violating constitutional right by the procedure it uses.

### *Bell Radio Frequency Testimony*

**B**ELL system witnesses have filed some interesting testimony with the FCC in the so-called "Docket No. 11997." In this case the commission is studying the allocation of radio frequencies in the range between 25 and 890 megacycles. The Bell system witnesses included John J. Hanselman, assistant vice president of the American Telephone and Telegraph Company; Robert Bright, mobile radio engineer for the AT&T; Harold R. Huntley, chief engineer of the AT&T; and Paul W. Blye, director of systems engineering of Bell Telephone Laboratories.

Mr. Hanselman described the different types of public mobile service, including signaling service (commonly called paging service), and dispatch service whereby the person in one mobile unit can talk with any other mobile or exchange telephone customer. He reviewed the different customers for such services: ambulance, physicians, police and fire, gas, electric, and water utilities, burglar and other protective service, and various types of business enterprise requiring contact with

mobile units for efficient operation. There were estimates given of future requirements, based on rapidly increasing automobile registration, and Hanselman urged a prompt decision by the FCC.

**A**s to the rôle of the telephone company in meeting mobile telephone needs, Hanselman said that mobile service is a natural extension of exchange and toll service. He concluded:

... it cannot be emphasized too strongly that a great expansion of public mobile telephone service is in the public interest. It would provide for the first time adequate communication service to people on the move, it would expand investment and job opportunities throughout the electronics industry, it would strengthen our communication resources in time of national emergency. The commission is strongly urged to allocate sufficient frequencies to the land-line telephone companies to make possible the establishment of a truly adequate nation-wide public mobile telephone system.

Mr. Huntley dealt mostly with the technical phases of Bell system radio frequency requirements. His testimony contained a number of very interesting exhibits, including a color chart breakdown of the radio spectrum from 25 to 890 megacycles. He said that the Bell system is prepared to take the following steps: (1) develop, in company with others, studies and programs necessary to make mobile service an integral part of the whole toll and exchange network; (2) undertake an orderly program for moving present mobile radiotelephone operations to a proposed new frequency range from its present allocations as the new frequencies become available; (3) work closely with all people who are interested in producing mobile units, sharing the "know-how" freely



## TELEPHONE AND TELEGRAPH

but not getting in directly to the design or production, sale, or service of mobile sets, public or private.

MR. BRIGHT's testimony described two recent special developments in Bell system mobile service: (1) the current trial of air-to-ground service in the Detroit-Chicago area, whereby the airplane traveling public can be put into telephone communication via radio with ground stations; (2) the signaling service through pocket receivers worn on the person of subscribers now provided in Allentown and Bethlehem, Pennsylvania, and Columbus, Ohio. With respect to the second point, Mr. Bright concluded:

Although personal signaling service is obviously not a substitute for full two-way service it meets a need for a minimum type of personal communication at relatively low cost. Because it can be operated interspersed with mobile telephone calls it provides a greater total of communications within a given area within the same amount of spectrum space.

Paul W. Blye, testifying for the Bell Telephone Laboratories, described common carrier mobile services as they exist today and future needs. His testimony was accompanied by some illustrative exhibits showing how mobile services work or can work under different conditions. As to future possibilities, Mr. Blye concluded:

As previously indicated, we should expect, as the first phase of our development program, to make available to the telephone companies at the earliest possible date, a co-ordinated mobile radio system providing about 200 channels of good quality. In addition to mobile radio service to vehicles this system will also provide much needed facilities for public correspondence to airplanes,

and even for maritime radio service. In addition, personal radio signaling such as Mr. Bright has described can send signals interspersed among telephone calls, with very small effect on call-handling capacity. Such a system will furnish service to some 5,000 customers in a single area.

Our experience has been that the public is quick to recognize the merits of a high-quality communication service and we should expect the number of mobile customers to expand rapidly. Paralleling the Phase 1 development, therefore, we should expect to embark upon Phase 2 of our program by expanding research and exploratory development effort directed toward a more sophisticated system, providing at least 1,000 channels, to serve many more customers. . . .

## *Court Upholds Strike Violence Convictions*

THE U. S. Supreme Court on March 30th upheld the federal conviction of two telephone strike saboteurs for conspiracy to dynamite government-controlled telephone lines, even though they were punished under a state law for the same act. The conviction grew out of strike violence during the Southern Bell Telephone and Telegraph Company strike in 1955.

The court's opinion, delivered by Justice Brennan, was the latest of a long line of rulings that both state and federal penalties may be imposed for the same criminal action. The vote was 6 to 3. Chief Justice Warren and Justices Black and Douglas dissented. The defendants were convicted of conspiring to blow up Southern Bell telephone lines in Jackson, Mississippi, an outgrowth of a strike against Southern Bell by the CWA.





## Financial News and Comment

By OWEN ELY

### *Analysts' Views Differ on Accelerated Depreciation*

THE forthcoming Securities and Exchange Commission hearings on accelerated depreciation have occasioned new controversy over this already much-debated topic. A number of briefs have been filed by utility companies, and utility analysts are also showing considerable interest in the subject. The National Federation of Financial Analysts Societies first sent a letter to the commission stating that its standing committee "empowered to deal with such matters" is in hearty accord with the commission's action, and in effect favors normalization of deferred taxes in the income account. The letter added, "we believe that the lack of uniformity in income and balance sheet accounting is misleading to the investor."

The New York Society of Security Analysts, whose membership comprises roughly one-half of the federation's, was apparently not consulted with regard to the federation letter. A special committee was appointed and sent its own letter dated March 23rd to the commission, stating that the New York committee "does not concur in that [the federation's] statement and seriously doubts that the views presented therein are representative of the general thinking of financial analysts."

The committee held that the SEC

"notice" was too indefinitely worded, and also that action by the SEC might not be especially helpful toward the goal of uniformity in utility accounting, in view of the varying views and orders of state commissions in connection with both accounting and rates. The committee felt that at the present time investors are adequately protected by footnotes to the accounts indicating how tax savings ("deferred taxes") resulting from accelerated amortization and/or liberalized depreciation are handled.

HOWEVER, one member of the committee entered a vigorous dissenting opinion, in a separate letter to the commission. He did not agree "that a footnote in an annual report or occasional

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## FINANCIAL NEWS AND COMMENT

prospectus adequately protects investors in this matter. It is plain that the footnote is disregarded by managements of some companies that advocate its use. They base their financial policies on the contention that the 'restricted surplus' is a substitute for common equity money and to the extent that there is 'restricted surplus' they refrain from marketing an equivalent amount of common stock. These managements deny the validity of the more rational view that deferred taxes are more nearly equivalent to long-term debt—an interest-free loan of tax money by the government repayable in installments over a long period of years. Since it does, in reality, make a difference whether management puts the deferred taxes into a separate reserve or includes them in earmarked surplus, the argument that a footnote will take care of the problem does not hold water. This problem has aspects like Gresham's Law which holds that bad currencies tend to drive out the good. If steps are not taken to eliminate an undesirable accounting practice, competition will drive others into adopting it.

"A much more serious problem is the use by public utility companies of 'flow-through' accounting in connection with accelerated depreciation. This problem also calls for the adoption or imposition of some standards for the protection of investors, but as I read the notice this practice is not to be scrutinized by the commission at this time."

THE editor agrees with Mr. Vanderhyde that footnotes do not furnish adequate information for the investor—except perhaps to the sophisticated institutional investor who has the benefit of careful analytical aid. Footnotes in both annual reports and prospectuses frequently appear in another section, separated by a number of pages, and reference to the

page number is not always clearly indicated. In the recent prospectus on the issue of common stock by California Electric Power Company, the SEC took notice of this difficulty and ordered the footnote to be reproduced along with the earnings statement in the front of the prospectus.

Moreover, footnotes are frequently couched in highly technical accounting language and may be difficult for the ordinary investor to understand. Considering the importance of the effect on earnings and common stock equity of deferred taxes, and the fact that some companies normalize while others do not, the small investor is entitled to adequate protection so that he can clearly compare the share earnings of one company with another, even though they use different methods of handling tax deferrals. The question of the location of deferred taxes in the balance sheet, while important, seems decidedly secondary so far as the small investor is concerned.

### *California Commissioner Recognizes Menace of Steady Inflation*

AN address by Ray E. Untereiner, member of the California Public Utilities Commission, before the California Farm Bureau of Federation last November, contains a very complete account of the commission's history, setup, and duties. It regulates some 18,000 private companies, with extensive jurisdiction and very great regulatory powers—which originated with Hiram Johnson in 1911 when he wanted to diminish the influence of the Southern Pacific. There are five commissioners appointed by the governor for six-year terms, but on a staggered basis so that he cannot usually appoint more than two in his first two years of office.

Mr. Untereiner pointed out that among

## PUBLIC UTILITIES FORTNIGHTLY

the 25 largest cities in the United States, San Francisco enjoys the lowest combination of gas, electric, and telephone rates, while Los Angeles ranks third. (Electricity is provided there by a public authority.) He recognizes that in California the effects of inflation on replacement costs have not been fully compensated for by rate increases, since the commission uses an historical cost rate base. Hence both rate base and earnings are minimized during inflation as compared to what they would be on a current value basis, and a common stockholder in a California utility cannot expect the same degree of capital appreciation on his investment as he would enjoy in a successful nonregulated business. However, he thinks that in the past this

has not particularly depressed prices for California utility stocks "because they have offered a relatively good hedge against deflation and depression"; during depression periods original cost figures may tend to be higher than current value figures.

**H**OWEVER, he admits that this "happy situation" may not continue since basic conditions have changed. He states:

Until the time of the first New Deal, the business cycle was well pronounced; and deflation regularly followed inflation every ten years or so. Now that there is virtually no limit on the federal government's ability to expand the



### MARCH UTILITY FINANCING PUBLIC OFFERINGS OF ELECTRIC AND GAS UTILITY SECURITIES

Amount Date (Mill)	Description	Price To Public	Under- writing Spread	Offer- ing Yield	Aver. Yield For Securities Of Similar Quality	Moody Rating	Success Of Offer- ing
<i>Bonds</i>							
3/11 \$25	Northern Indiana P.S. 1st 4½s 1989*	101.66	.83C	4.40%	4.28%	Aa	c
3/11 33	Colorado Interstate Gas 1st 4.70s 1979*	100.38	1.00N	4.67	4.48	A	a
3/25 15	Montana Power 1st 4½s 1984 .....	101.16	.77C	4.43	4.34	Aa	c
3/25 25	Cleve. Elec. Illum. 1st 4½s 1994 .....	101.63	.69C	4.29	4.25	Aaa	c
3/26 30	Ohio Edison 1st 4½s 1989* .....	101.16	.76C	4.43	4.34	Aa	c
3/31 25	Ohio Power 1st 4½s 1989 .....	102.55	.72C	4.47	4.34	Aa	c
<i>Preferred Stock</i>							
3/10 6	Equitable Gas 4.36% Conv.** .....	102.00	2.00N	4.27			a
3/11 12	Colorado Interstate Gas 5.35% s.f. Pfd.	100.00	2.75N	5.35			a
3/19 15	Texas Eastern Trans. 5.60% s.f. Pfd.	100.00	2.75N	5.60			a
<i>Common Stocks—Offered to Stockholders</i>							
3/ 2 2	Piedmont Natural Gas .....	27.00	N	3.70		Earns.- Price Ratio 6.80%	a
3/ 4 8	Pacific Power & Light .....	37.50	.12C	4.27		6.41	f
3/ 5 4	Eastern Utilities Associates .....	38.25	.23C	5.75		7.09	a
<i>Common Stocks—Offered to Public</i>							
3/26 1	Upper Peninsular Power .....	32.00	1.80N	5.00		5.71	a

C—Competitive. N—Negotiated. \*Cash sinking fund beginning in later years. \*\*Converted into common at 42. a—Reported issue well received. c—Reported issue sold somewhat slowly. f—Ninety-four per cent subscribed.

Source, Irving Trust Company

APRIL 23, 1959

## FINANCIAL NEWS AND COMMENT

money supply and inflation, although vigorously denounced by every politician, appears to have become a fixed and deliberate federal policy regardless of the party in power, constant inflation extending over very long periods of time, never fully compensated by such brief periods of deflation as may occur despite the government's vigilance to prevent them, may well destroy the attractiveness of utilities securities as a hedge. Should this occur, then a higher yield will be necessary to persuade investors to provide the funds to finance the ever-expanding need for utility plant.

These well-reasoned conclusions help to explain the seemingly more liberal policy of the California commission with respect to rate of return over the past two years.

### *Percentages Earned on Book Value by Utility Companies*

VICE PRESIDENT HERRMAN of Southern California Gas Company has

compiled some interesting figures on the average percentage earned recently on book value of common stocks by electric and gas utilities in different states. (See accompanying table.)

The historical record for different groups compares as follows:

	<i>Electric Utilities</i>	<i>Gas Utilities</i>		
		<i>Manufactured Or Mixed</i>	<i>Natural Gas</i>	<i>Pipelines</i>
1953	11.3%	4.9%	12.9%	12.7%
1954	11.0	5.6	11.5	12.5
1955	11.4	7.3	11.4	14.9
1956	11.5	7.6	13.2	16.0
1957	11.1	6.2	11.5	15.4
1958	11.1	6.8	12.5	13.6

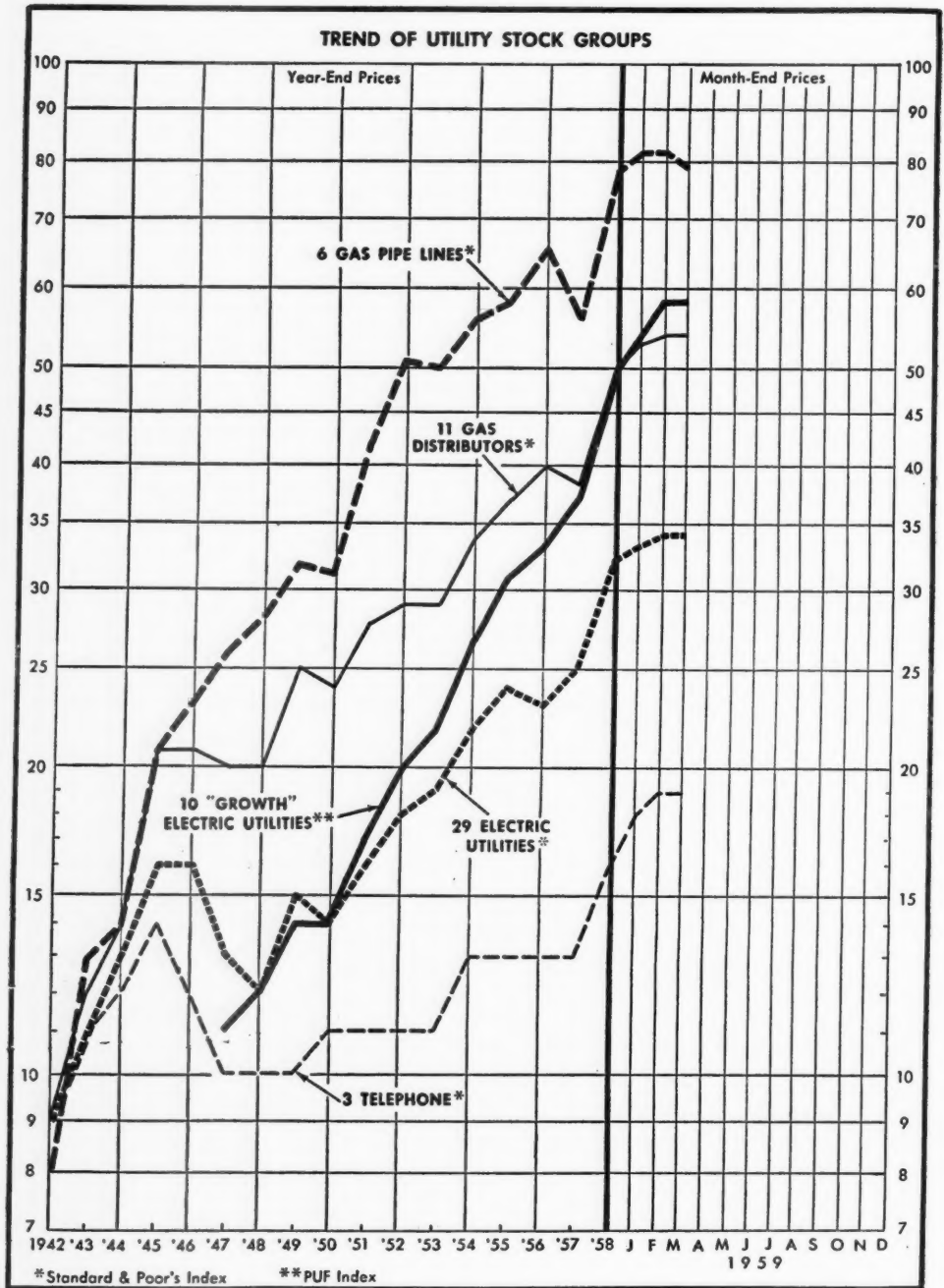
The group averages are about what one might expect. The manufactured and mixed gas utilities, handicapped by rising fuel costs, have had relatively low earnings while the natural gas companies have fared better, with pipelines making the best showing. The prosperity of the pipelines perhaps explains why they have been the outstanding stock group historically. (See chart page 634.)



### AVERAGE RATE OF RETURN EARNED RECENTLY ON BOOK VALUE OF COMMON STOCKS

	<i>Gas Utilities</i>	<i>Electric Utilities</i>		<i>Gas Utilities</i>	<i>Electric Utilities</i>
Alabama .....	15.3%	—	Montana .....	—	15.5%
Arizona .....	—	12.6%	Nevada .....	—	12.6
Arkansas .....	15.9	—	New Hampshire .....	—	9.3
California .....	8.6	9.0	New Jersey .....	12.4%	10.7
Colorado .....	—	10.3	New Mexico .....	—	12.3
Connecticut .....	6.7	10.6	New York .....	11.2	9.4
Delaware .....	—	10.9	North Carolina .....	—	10.6
Florida .....	—	12.0	Ohio .....	17.1	11.0
Georgia .....	10.4	13.9	Oklahoma .....	12.6	13.3
Idaho .....	—	10.4	Oregon .....	6.5	10.4
Illinois .....	11.4	12.5	Pennsylvania .....	10.5	12.8
Indiana .....	14.3	11.9	Rhode Island .....	4.0	10.4
Iowa .....	—	10.7	South Carolina .....	—	10.8
Kansas .....	—	13.8	South Dakota .....	—	12.1
Kentucky .....	17.4	11.3	Tennessee .....	9.9	—
Louisiana .....	—	10.4	Texas .....	13.6	14.3
Maine .....	—	9.5	Utah .....	8.1	9.6
Maryland .....	—	9.7	Vermont .....	—	10.8
Massachusetts .....	8.5	9.2	Virginia .....	—	11.7
Michigan .....	10.7	11.5	Washington .....	3.8	8.5
Minnesota .....	13.8	11.5	Wisconsin .....	—	9.7
Mississippi .....	19.0	—	District of Columbia .....	—	9.8
Missouri .....	12.2	10.8	Interstate Companies .....	13.6	11.4

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The averages for states are not very accurate because they exclude a number of large companies which service more than one state. (These are grouped under "Interstate Companies" at the end.)

In general, the lower rates of return seem to be concentrated (as might be expected) in certain states where past regulation has been somewhat on the restrictive side—California, the New England states, New York, Maryland, Wisconsin, District of Columbia, Oregon, and Washington. However, the figures should be used carefully since in some cases they are based on only one company, and factors other than regulation might affect such results. Mr. Herrman's original tables are more detailed than our summary.

### *U. S. and Canadian Gas Reserves Increase*

**P**ROVED recoverable reserves of natural gas in the United States have increased to 254 trillion cubic feet in 1958, compared with 247 trillion in the previous year, a gain of nearly 3 per cent. Net production in 1958 was 11.5 trillion cubic feet, about the same as in the previous year. Thus additions to reserves during the year were 19 trillion cubic feet, including 5.6 trillion cubic feet of new discoveries and 13.4 trillion cubic feet from extensions and revisions of earlier estimates. New discoveries compared with 9 trillion in the previous year, a reduction of 38 per cent and was the smallest since 1954, presumably due to regulatory problems, the industrial slowdown in the first half of 1958, and the decreased drilling of oil wells. The number of producing oil wells completed last year was down about 10 per cent from the previous year.

U. S. gas reserves are located approximately as follows (in trillions of cubic feet):

Texas .....	115
Louisiana .....	55*
New Mexico .....	21
Kansas .....	20
Oklahoma .....	15
California .....	9*
Wyoming .....	4
Mississippi .....	3
Other states .....	12
Total .....	254

\*Includes offshore reserves.

New discoveries of natural gas liquid-reserves in 1958 totaled 108.2 million barrels, second highest in the industry's history. Estimated reserves at year's end totaled 6.2 billion barrels.

**C**ANADIAN natural gas reserves, reported annually by the Canadian Petroleum Association, increased to 23.3 trillion cubic feet last year, compared with 20.7 trillion at the end of 1957, a gain of 13 per cent. (These figures cover only the proved gas "in the ground" and do not include any estimate of potential future discoveries.) Net production of 381 billion cubic feet was reported, against reserve additions of 2.9 trillion cubic feet. Canadian reserves were located as follows (in trillions of cubic feet):

Alberta .....	20.2
British Columbia .....	1.7
Saskatchewan .....	1.2
Ontario .....	.2
Other Provinces .....	—
Total .....	23.3

In Canada the search for natural gas is still proceeding despite political problems with respect to increased exports to the United States. The discovery of gas in British Columbia in recent years has done more than anything else to develop that province. In spite of the large amount of proven reserves developed in the past four years, the *Financial Post* states that "the surface has scarcely been scratched in the hot exploratory drive now ranging right

# PUBLIC UTILITIES FORTNIGHTLY

up to the Yukon border." Recent wildcat wells just south of the Yukon and in the Fort Nelson district have accelerated the drive for new acreage. Up to a recent date applications had been filed for drilling concessions in over 14 million acres.

**W**ESTCOAST TRANSMISSION has completed an 84-mile extension of its gas-gathering system northwest of Fort St. John, tying in 21 more wells to the grid system and permitting delivery of an additional 80 million cubic feet daily to the transmission line down to the U. S. border. The pipeline can now increase its gas flow to 450 million cubic feet daily

without additional large expenditures, it is estimated; the capacity of the line could be increased to 660 million cubic feet by adding four compressor stations, and still further by looping. The large indicated reserves in the Peace River fields and the new finds in the northern area give greater assurance that proven reserves and potential are ample to permit desired shipments to the U. S. for (1) the increasing needs of El Paso Natural Gas and its subsidiary, Pacific Northwest Pipeline, (2) the proposed Pacific Gas and Electric pipeline, and (3) a hookup with the proposed Mid-western Pipe Line to supply gas to Michigan, Minnesota, and Wisconsin.



## RECENT FINANCIAL DATA ON GAS UTILITY STOCKS

Annual Rev. (Mill.)		4/1/59 Price About	Divi- dend Rate	Approx. Yield	Recent Share Earnings	% In- crease	Aver. Incr. In Sh. Earnings 1953-58	Price- Earnings Ratio	Div. Pay- out	Approx. Common Stock Equity		
Pipelines and Integrated Systems												
\$ 5	O	Ala.-Tenn. Nat. Gas ....	24	\$1.20(k)	5.0%	\$1.37De	4%	14%	17.5	87%	40%	
205	S	American Nat. Gas ....	70	2.60(l)	3.7	4.44De	13	8	15.8	59	39	
58	A	Arkansas Louis. Gas ....	60	1.20	2.0	1.85De	57	19	47x	32.4	65	52
55	O	Colo. Interstate Gas ....	56	1.25	2.2	2.30De	3	9	24.3	54	24	
427	S	Columbia Gas System ...	24	1.00	4.2	1.44De	10	26	16.7	70	43	
7	O	Commonwealth Gas ....	10	—	—	.40De	D26	—	25.0	—	77	
19	O	Commonwealth N. G. ....	51	2.00	3.9	3.24De	6	12	15.7	62	47	
11	S	Consol. Gas Util. ....	20	.90	4.5	1.54Ja	D4	8	13.0	58	57	
304	S	Consol. Nat. Gas ....	56	2.10	3.8	3.14De	D8	11	17.8	67	60	
19	O	E. Tenn. Nat. Gas ....	12	.60	5.0	.90De	7	23	13.3	66	25	
301	S	El Paso Nat. Gas ....	36	1.30	3.6	**1.67De	57	13	12x	21.6	78	20
50	S	Equitable Gas ....	40	1.60	4.0	2.34De	5	6	17.1	68	44	
34	O	Houston N. G. ....	25	.80	3.2	1.41Ja	D19	11	17.7	57	18	
21	O	Kansas Nebr. Nat. Gas ..	45	1.80(f)	4.0	2.94De	15	11	15.3	61	36	
113	S	Lone Star Gas ....	42	1.80	4.3	2.24De	D4	10	18.7	80	43	
77	S	Miss. River Fuel ....	40	1.60	4.0	1.96De	D2	5	20.4	82	48	
28	S	Montana Dakota Util. ...	32	1.00	3.1	1.65De	8	15	19.4	61	29	
26	O	Mountain Fuel Supply ..	26	1.20	4.6	1.57De	D9	3	16.6	76	51	
94	S	Natl. Fuel Gas ....	23	1.10	4.8	1.47De	6	7	15.6	75	56	
139	S	Northern Nat. Gas ....	33	1.40	4.2	1.62De	D13	9	20.4	86	35	
43	S	Oklahoma Nat. Gas ....	29	1.12	3.8	1.76De	34	6	16.5	64	34	
121	S	Panhandle East. P. L. ...	51	1.80	3.5	2.74De	—	2	18.6	66	40	
15	O	Pennsylvania Gas ....	24	1.20	5.0	2.13De	D2	30	11.3	56	59	
188	S	Peoples G. L. & Coke ...	59	2.00	3.4	3.08De	5	4	19.2	65	41	
26	O	Pioneer Nat. Gas ....	36	1.40	3.9	2.10De	D1	11	17.1	67	43	
101	S	Southern Nat. Gas ....	41	2.00	4.9	2.01Oc	NC	4x	20.4	100	41	
41	O	Southern Union Gas ....	27	1.12	4.1	1.40De	D9	9	19.3	80	27	
402	S	Tenn. Gas Trans. ....	37	1.40	3.8	1.84De	8	16	20.1	76	23	
266	O	Texas East. Trans. ....	33	1.40	4.2	2.34De	D7	16	14.1	60	22	
104	O	Texas Gas Trans. ....	35	1.20(b)	3.4	2.06De	13	3	17.0	58	33	
115	O	Transcont. Gas P. L. ....	24	1.00(b)	4.2	1.40De	3	17	17.1	71	23	
318	S	United Gas Corp. ....	41	1.50	3.7	2.41De	D4	4	17.0	62	42	
Averages .....				3.9%		2%	12%	18.2	69%			

# FINANCIAL NEWS AND COMMENT

Annual Rev. (Mill.)	(Continued)	4/1/59 Price About	Divi- dend Rate	Approx. Yield	Recent Share Earnings	% In- crease	Aver. Incr. In Sh. Earnings 1953-58	Price- Earnings Ratio	Div. Pay- out	Approx. Common Stock Equity
<i>Retail Distributors</i>										
32 S	Alabama Gas .....	34	\$1.60	4.1%	\$2.16De	D6%	13%	15.7	74%	42%
53 O	Atlanta Gas Light .....	37	1.60	4.3	2.54Ja	2	11	14.6	63	34
3 O	Berkshire Gas .....	21	1.00	4.8	1.24N	5	31x	16.9	81	39
6 A	Bridgeport Gas .....	32	1.60	5.0	2.03Se	10	1x	15.8	79	50
5 O	Brockton-Taunton Gas ..	19	.95	5.0	1.18De <sup>57</sup>	D8	43x	16.1	81	41
79 S	Brooklyn Union Gas .....	55	2.20	4.0	3.17De	9	10	17.4	69	44
4 O	Cascade Nat. Gas .....	8	—	—	Def.De <sup>57</sup>	—	—	—	—	18
39 O	Central Elec. & Gas .....	23	1.00	4.3	1.49Se	—	15x	15.4	67	18
13 O	Cent. Indiana Gas .....	15	.80	5.3	.90De	D16	17	16.7	90	57
6 O	Chattanooga Gas .....	6½	.35	5.8	.41N	D2	17x	14.6	85	43
68 O	Gas Service .....	32	1.52	4.8	2.31De	—	13	13.9	66	36
9 O	Hartford Gas .....	45	2.00	4.4	2.31De	21	—	19.5	87	51
3 O	Haverhill Gas .....	27	1.40	5.2	2.03Ja	15	14	13.3	69	53
20 O	Indiana Gas & Water ...	25	1.00(b)	4.0	1.52De	8	11	16.5	66	45
52 S	Laclede Gas .....	21	.90	4.3	1.21De	D8	5	17.3	74	34
6 O	Mich. Gas Util. ....	22	1.05	4.7	1.20De	D2	4	18.3	87	34
43 O	Minneapolis Gas .....	33	1.50	4.5	1.73Se	D16	12x	19.0	87	42
15 O	Miss. Valley Gas .....	29	1.20	4.1	2.31Se	67	14x	12.6	52	33
5 O	Mobile Gas Service .....	26	1.10	4.2	1.77Se	44	—	14.7	62	35
7 O	New Haven Gas .....	40	1.90	4.8	2.36De <sup>57</sup>	4	—	16.9	81	68
15 O	New Jersey Nat. Gas ...	48	1.60(h)	3.3	2.62Se	13	—	18.3	61	34
91 O	No. Illinois Gas .....	28	.88	3.1	1.46Ja	4	—	19.2	61	54
9 O	North Penn Gas .....	12	.60	5.0	.85Je	D5	8x	14.1	71	58
18 O	Northwest Nat. Gas ....	18	.72	4.0	*.95De	D6	—	*19.0	76	36
240 S	Pacific Lighting .....	52	2.40	4.6	2.76De	14	8	18.8	87	36
10 O	Piedmont Nat. Gas .....	31	1.00	3.2	1.84De	5	21	16.8	54	24
2 O	Portland Gas Lt. ....	15	.75	5.0	2.31De	128	31	6.5	32	27
10 A	Providence Gas .....	12	.56	4.7	.60De	20	5	20.0	93	50
4 A	Rio Grande Valley Gas ..	5	.24	4.8	.34De	40	11	14.1	71	55
6 O	So. Atlantic Gas .....	17	.80	4.7	1.22Se	27	6	13.9	66	32
14 S	So. Jersey Gas .....	49	1.60	3.3	2.35De	7	18	20.8	68	50
34 S	United Gas Impr. ....	56	2.40	4.0	3.15De	27	5	17.8	76	54
60 S	Wash. Gas Light .....	52	2.24	4.3	3.37De	21	12	15.4	66	41
11 O	Wash. Nat. Gas .....	17	(g)	—	.54Se	13	—	—	—	41
8 O	Western Ky. Gas .....	18	.60(i)	3.3	1.46Se	135	4x	12.3	41	38
Averages .....				4.4%		17%	11%	16.1	71%	



## RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER STOCKS

Annual Rev. (Mill.)		4/1/59 Price About	Divi- dend Rate	Approx. Yield	Recent Share Earnings	% In- crease	Aver. Incr. In Sh. Earnings 1953-58	Price- Earnings Ratio	Div. Pay- out	Approx. Common Stock Equity
<i>Communications</i>										
<i>Bell System</i>										
\$6,771 S	Amer. T. & T. (Cons.) .	243	\$9.90†	4.1%*	\$14.01De	8%	4%	*17.3	71%	64%
303 A	Bell Tel. of Canada ....	42	2.00	4.8	2.00De <sup>57</sup>	D11	—	21.0	100	66
46 O	Cin. & Sub. Bell Tel. ....	100	4.50	4.5	4.95De <sup>57</sup>	D12	1x	20.2	91	100
255 A	Mountain Sts. T. & T. ...	153	6.60	4.3	8.09De	D3	4	18.9	82	76
354 A	New Eng. T. & T. ....	173	8.00	4.6	9.51Se	17	5	18.2	84	62
937 S	Pacific T. & T. ....	159	7.00	4.4	7.89De	4	1	20.1	89	61
119 O	So. New Eng. Tel. ....	44	2.00	4.5	2.60De	37	8	17.0	77	61
Averages .....				4.4%		5%	3%	19.0	85%	
<i>Independents</i>										
6 O	Anglo-Canadian Tel. ....	42	\$1.20	2.9%	\$2.94De	D10%	32%	14.3	41%	52%
45 O	British Col. Tel. ....	46	2.00	4.3	1.72De	D34	—	26.7	116	28
4 O	Calif. Inter. Tel. ....	15	.70	4.7	.89	D19	NC	16.8	79	24

# PUBLIC UTILITIES FORTNIGHTLY

Annual Rev. (Mill.)			4/1/59 Price About	Divi- dend Rate	Approx. Yield	Recent Share Earnings	% In- crease	Aver. In Sh. Earnings, 1953-58	Price- Earnings Ratio	Div. Pay- out	Approx. Common Stock Equity
18	O	Calif. Water & Tel. ....	28	1.20	4.3	1.54Je	1	—	18.2	78	48
18	O	Central Tel. ....	25	1.00(b)	4.0	1.80De	D9	5	14.0	56	28
5	O	Commonwealth Tel. ....	20	.90	4.5	1.35De	D6	20	14.8	67	35
5	O	Florida Tel. ....	29	1.00	3.4	1.00De	D7	4	29.0	100	42
552	S	General Telephone ....	65	2.00	3.1	3.18De	5	NC	20.4	63	34
19	O	Hawaiian Telephone ....	22	1.00	4.5	*1.26Ja	6	4	*17.7	79	43
8	O	Inter-Mountain Tel. ....	15	.80	5.3	.91De	D3	—	16.5	88	54
23	S	Rochester Tel. ....	28	1.00	3.6	1.49De	12	4	18.8	67	33
4	O	Southeastern Tel. ....	20	.90	4.5	1.11De'57	D21	—	18.0	81	54
10	O	Southwestern St. Tel. ...	26	1.20	4.6	1.53N	NC	4x	17.0	78	35
34	O	United Utilities ....	34	1.25	3.7	1.54De'57	D6	1x	22.1	81	40
15	O	West Coast Tel. ....	25	1.00	4.0	1.18Se	D22	4x	21.2	85	35
255	S	Western Union Tel. ....	37	1.20	3.2	1.89De	D7	—	19.6	63	85
Averages .....					4.0%		D8%	6%	19.0	76%	
Transit Companies											
20	O	Baltimore Transit ....	9	—	—	\$.58De	D43%	—	15.5	—	48%
12	O	Cincinnati Transit ....	6	\$.30	5.0%	.31De	D40	—	19.4	97%	54
65	S	Fifth Ave. Coach ....	18	—	—	.02De	D99	—	—	—	75
308	S	Greyhound Corp. ....	20	1.00	5.0	1.22De'57	D4	—	16.4	82	45
25	S	Nat. City Lines ....	28	2.00	7.1	1.69De'57	D38	—	16.6	118	94
13	O	Niagara Frontier Trans. .	8½	.60	7.0	.77De'57	35	—	11.0	78	78
17	A	Pittsburgh Rys. ....	11	.25	2.3	Deficit	—	—	—	—	90
6	O	Rochester Transit ....	6	.40	6.7	.64De'57	D6	29x	9.4	63	100
22	O	St. Louis P. S. ....	11	1.00	9.1	.57De'57	D17	19x	19.3	175	94
14	S	Twin City R. T. ....	12	1.00	8.3	.24De	D70	—	—	416	65
19	O	United Transit ....	6	.60	10.0	.75De	D4	—	8.0	80	51
Averages .....					6.7%	(D)	69%	—	14.5	139%	
Water Companies											
Holding Companies											
43	S	American Water Works .	14½	\$.60	4.3%	\$1.01De	—	—	13.9	59%	17%
Operating Companies											
5	O	Bridgeport Hydraulic ...	34	\$1.70(f)	5.0%	\$2.05De'57	D2%	5% <sub>x</sub>	16.6	83%	53%
16	O	Calif. Water Service ...	29	1.20(j)	4.1	1.54F	D7	1	18.8	78	36
4	O	Elizabethtown Water ....	50	2.00	4.0	3.90De'57	19	30x	12.8	51	58
11	S	Hackensack Water ....	48	2.00	4.2	3.18De'57	11	6x	15.1	63	38
8	O	Indianapolis Water ....	25	1.00	4.0	1.22De	D4	6	20.5	82	35
6	O	Jamaica Water ....	43	2.20	5.1	2.97De	D6	1	14.5	74	27
5	O	New Haven Water ....	68	3.40	5.0	3.32De	9	6	20.5	102	61
2	O	Ohio Water Serv. ....	30	1.50(b)	5.0	1.52De	D41	—	19.7	99	31
9	O	Phila. & Sub. Water ....	48	.50(b)	1.0	2.59De	D17	—	18.5	19	27
2	O	Plainfield Un. Water ...	63	3.00	4.8	4.42De'57	D12	2x	14.3	68	63
5	O	San Jose Water ....	31	1.30(f)	4.2	2.01Ja	12	15	15.4	65	41
11	O	Scranton-Springbrook ..	23	1.00	4.3	1.63De	2	4	14.1	61	25
5	O	South. Calif. Water ....	21	.80	3.8	1.19N	NC	12x	17.6	67	31
4	O	W. Va. Water Service ..	22	.68(d)	3.1	1.47De	D20	—	15.0	46	17
Averages .....					4.1%		D4%	7%	16.7	68%	

A—American Stock Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. Ja—January; F—February; Ma—March; Ap—April; My—May; Je—June; Jy—July; Au—August; Se—September; Oc—October; N—November; De—December. NC—Not comparable. NA—Not available. D—Decrease. \*On average shares. †Rate raised to \$9.90, effective next July (\$3.30 on split shares). (a) Adjusted to eliminate 13 cents per share of nonrecurring tax savings. (b) Also stock dividend in 1958. (d) Also 1 per cent stock dividend quarterly. (e) Also 10 per cent stock dividend May 19, 1958. (f) Includes extras. (g) Five per cent stock dividend April 10, 1959. (h) Also 2 per cent stock dividend December 1, 1958. (i) Also 5 per cent stock dividend December 29, 1958. (j) Also 5 per cent stock dividend March 19, 1959. (k) Also 20 per cent stock dividend March 9, 1959. (l) Also 10 per cent stock dividend June 10, 1959. (n) Excludes profit realized on sale of Los Angeles Transit \$3.81 per share. \*\*On combined common and common B stocks. x—1952-57.



## What Others Think

### The USITA Management Conference

**T**HIS is a period of never-ending school-days for a great number of people, including business and professional men, who feel the need for special courses to keep them better informed about their jobs.

The reason why these executives and management people, as well as some of the professional specialists, find great usefulness in such special courses and seminars is because of the increasing complexity of modern business operations. Running a public utility business was never a particularly simple calling, even in the pioneering days of such enterprises as the telephone and electric utility companies following the basic developments of Bell and Edison. But the utility executive today finds his job increasingly intricate and arduous because of factors stemming from rapid changes in national and world-wide political and economic situations.

Two or three decades ago it was fairly commonplace for a utility official to confine the activities of a lifetime to one company or even one community. But today those engaged in utility management find that they must understand such diverse happenings as the interest rate fixed by the Federal Reserve Board, congressional activity in Washington, international contentions abroad, and so on and on. All this bewildering range of things

affects his own job in terms of dollars and cents earned or lost.

One of the handicaps which smaller companies have faced in the past is that they had no place to go for such special training. It was possible for giant organizations such as the Bell system to develop first-rate management training facilities along the lines practiced every year at Asbury Park and other special courses.

**B**UT the independent telephone companies with some notable exceptions perhaps, as in the case of the General system, did not have the resources to develop competent training programs of their own until 1958 when the companies tackled this problem on a co-operative basis by pooling their available resources and facilities through their national association, the 61-year-old United States Independent Telephone Association.

Thus, in the best tradition of filling the needs of its member companies, the USITA launched a program at the University of Kansas in 1958 which was so signally successful that it is being repeated in 1959 with pretty much the same "faculty" and under the same co-operative arrangement with the university authorities. Dean James R. Surface is the director of the program, which uses the campus accommodations at Lawrence, Kansas,



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during a summer period (July 12 through August 7, 1959) when the university facilities are otherwise not employed because of the vacation period of regular university undergraduates.

R. J. Fegan (generally known to his many friends in the telephone business as "Bob" Fegan) is the chairman of the USITA Personnel Committee which helped to develop this program. Bob had to take much time from his full-time job with the Junction City Telephone Company, Junction City, Kansas, and he was ably assisted by Kenneth L. Dally, of the Central Telephone Company, Lincoln, Nebraska, and Clyde S. Bailey, the USITA executive vice president in charge of the association's headquarters in Washington, D. C.

**T**HE increasing interest and enthusiasm for this program were recently demonstrated by the receipt at Kansas University of several enrollment applications—even before brochures describing the 1959 program were placed in the mail.

This program is the result of several years of study and development work by USITA's personnel committee and the University of Kansas School of Business. During this study and development period members of USITA's personnel committee visited many universities throughout the country, and were aided materially through counseling with many of our country's leading experts in the field of management development work.

The program is designed for executives who currently have important administrative responsibilities. Areas of development are grouped under three general headings: "The Functions of Administration," "The American Business Climate," and "Rate Regulation." "The Functions of Administration" portion is in turn subdivided to include "Control and Financial

Administration"; "Human Relations in Business"; "Merchandising"; and "Administrative Policy and Planning." The case method of instruction is used throughout much of the program.

Several important improvements are being made in the 1959 program. Notable among these improvements are changes in the "Rate Regulation" series. This series will be scheduled in the last week of the session so that the study of rate regulation can be built on the work done in the classes on "Control and Financial Administration." In addition, the 1959 course will devote more attention to the preparation of rate cases.

Simulated management experience (sometimes referred to as business games) was used during the 1958 program as a means of exposing participants to the area of business policy and also as an integrating vehicle. This very active, interesting, and effective experience will be repeated as a part of the 1959 program.

**T**HE faculty for this program is comprised of experts in the areas of their respective responsibilities—from the faculties of Harvard University, the University of Virginia, and the University of Kansas. The director of the program, Dr. Surface, formerly of the Harvard Business School faculty, who has had extensive experience in management development work for telephone companies and others, is now dean of the University of Kansas School of Business.

The 1959 program will be given during the four-week period—July 12th to August 7th. Brochures describing the 1959 program have very recently been circulated. The original deadline for 1959 applications was April 15, 1959. The enrollment fee, which includes classroom materials, meals, and lodging, is \$850 per participant.

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If the proof of the pudding is in the eating, the testimonials of "students" who took the 1958 course speak very well for the competence and thoroughness of the program's organization. Mr. Dally permitted this writer to see several replies along this line, including such comment as:

Course as a whole was excellent. The fact that the students were all from the telephone industry permitted closer scrutiny of case studies in a way that was easily understood by all students . . . Recommend that this course be a *must* for telephone executives.

\* \* \* \*

My impressions of the general living conditions and treatment at the University of Kansas are that they were the finest. The faculty members, the class, and all others whom I contacted were most friendly and helpful.

\* \* \* \*

I believe in the case method with participation by the students. Here lies the real opportunity for help and I believe the Kansas school has the greatest possibilities.

\* \* \* \*

Generally the program was excellent. Good instructors who were all willing to give assistance and did after classes. I find that I learned more than I realized at first and improvement will be show-

ing in the future. I am reading texts at home and will continue to do so.

EVERYONE seemed to benefit. Age is not important, and judging by the comment of the students, the "bull sessions" were very effective. The USITA well deserves the gratitude as well as the co-operation of its membership for filling this particular need in a situation where smaller companies might have serious difficulty getting their management people to keep abreast of these challenging times through which we are passing. As already stated, larger companies can "roll their own," but the smaller companies must depend on joint co-operation or do without for this particular field of endeavor.

There are, of course, other excellent facilities for more massive employee training at the supervisory level, such as *The P.U.R. Guide*, now being used by many companies in the general public utility field—gas, electric, and telephone. But with the promotion of management people to near executive responsibilities, a more intensive course of training is naturally called for which will specialize in the particular industrial operation, and it is at this point that the USITA Management Development Program serves the particular purpose and requirements of the independent telephone industry.

—F. X. W.

## Conference on Gas and Oil Problems

NATURAL gas and oil problems formed the theme of a two-day briefing conference held in Washington, D. C., during the early part of March. The conference, sponsored by the Federal Bar Association in co-operation with the Bureau of National Affairs, Inc., had as guest speakers a number of legislators, members of regulatory commissions, and persons as-

sociated with the gas and oil industry. Federal Power Commissioner William R. Connole spoke to the group regarding the rôle of regulation in developing the transportation and use of liquefied methane. Opening his speech, Mr. Connole said:

When the *S. S. Methane Pioneer* was warped into the docking facilities

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of the British Gas Council located on Regent Oil Company's jetty at Canvey Island in the Thames estuary last month, something of immensely greater significance arrived than another tanker. This was the first successful effort to transport natural gas in liquid form in an ocean-going tanker and the first time hydrocarbon fuel, other than coal or liquid petroleum, had been brought to western Europe from another continent.

It was pointed out that over a trillion cubic feet of gas are being flared in Venezuela and the Middle East and that, in addition, there are existing natural gas fields far from high demand consumer areas.

"What really arrived at the Thames last month, then," Connole said, "was not a ship, but a new branch of the petroleum industry and a new chapter in the story of energy utilization in the world."

**T**HERE is the possibility that within the not too distant future foreign liquefied gas may be introduced into this country to help cover peak periods of consumption and to act as stand-by reserves. The introduction of imported gas for use in the United States raises the question as to just how much governmental regulation it should be subject to, and just what standards should be followed. Because of the international nature of this product the problem is especially perplexing. It seems, therefore, that the gas industry and the government should concern themselves immediately with the foreseeable problems that will develop in connection with this new method of transporting methane gas. Connole continued:

On the international level the principal problems seem to be those found

in the import problem; such as the need to preserve a domestic economy, the natural preference for domestic producers over extraterritorial producers of natural gas, the need to avoid too much dependence on sources of energy which are beyond our control and which can be reached only through dangerously long and highly vulnerable supply lines. . . .

The economic problems involved are not divorced from the international aspects of natural gas importation. At the present time the Natural Gas Act prohibits the importation of gas without an order. There seems to be little genuine hostility toward such importation but orders would be granted only if to do so would be consistent with public interest and national policy. Connole stated:

. . . But what is our fuels and energy policy? Is it in the best interest of the United States to preserve existing fuels use patterns, or should changes be encouraged? Are there "inherent advantages," to use the words of the Transportation Policy, to one form of energy or another? What about Canadian gas? Mexican gas? Even the rôle of nuclear energy is not clear.

**T**HE absence of a firm national policy regarding this matter is of immediate concern to the business community, which is faced with the price of gas rising by about 100 per cent at the wellhead. The pipelines of this nation were constructed on the premise that low-price gas would continue to be available at the wellhead. The utility companies' most valuable units of consumption are those found at the top of the load curve—this comes about because of the huge investment that must be made to be able to handle the peak de-

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mand. This is the point at which liquid methane will be first used in this country. In further projections it must be remembered that ocean transportation is the cheapest mode of moving a product—much cheaper than constructing new pipelines in order to be able to meet peak demands.

"But here a swarm of problems would arise," Connole said. "Competing fuels, such as coal and oil, would find their markets threatened. Existing boiler fuel sales by pipelines would be in jeopardy.

"All of this and more would be matter for governmental and business concern."

With the imminent approach of the use of liquid methane gas, Commissioner Connole suggests that the FPC, the regulatory community, Congress, consuming interests, and the natural gas industry should begin "careful and co-operative study of this problem now before it becomes inflamed by personal or private interests attempting to preserve a position which may not have been sound in the first instance."

**I**N concluding his address Mr. Connole called to mind the difficulties and frustrations that surrounded the 1938 Natural Gas Act.

He then suggested the following:

I believe that liquefied methane will find its way into the United States within the next five years and, barring some unhappy catastrophe such as the one that set back the development of liquefied methane in Cleveland in 1944, I believe that large volumes of the natural gas consumed in eastern seaboard and West coast population centers by 1970 will come from outside continental North America. If this prediction is even remotely accurate, and I believe it is, it behooves us now to begin think-

ing about it and it behooves the Congress to begin doing something about it.

**J.** DAVID MANN, JR., Washington associate of the law firm of Morgan, Lewis & Bockius, addressed the conference relative to improvements in practice and procedure before the Federal Power Commission. In 1958 the Federal Power Bar Association conducted a symposium on practice and procedure. Based on the recommendations of this symposium, a joint working committee was established, through the co-operation of the chairman of the FPC, to consider and recommend improvements in the commission's rules of practice and procedure. Mr. Mann is chairman of this committee. He stated that

Recently, of course, we have seen much in the headlines about influence, corruption, *ex parte* representations, etc. While shocking, I am sure that most of us, who deal day in and day out with government agencies and departments, realize that the headlines point to the exception rather than the rule. Regulatory corruption is not rampant in Washington, nor for that matter do I believe it ever has been.

Mr. Mann lamented the fact that the same could not be said for regulatory "foot dragging." The working committee was established to eliminate some of the existing bottlenecks and to prevent the axiom "justice delayed is justice denied" from continuing to be a reality. He said:

The deliberations of this committee have been unusually serious and constructive. Every member has given of his best in an effort to arrive at some truly helpful suggestions for expediting action through improvements of the commission's rules. While I do not at

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this time know the precise nature of all of our recommendations, nor shall I attempt to deal with all facets of the various problems with which we have been concerned, I shall tell you of one suggestion which, if adopted by the commission, will do much to expedite the handling of its cases.

**T**HE committee intends to recommend that a notice be published promptly after an application has been checked for conformance to rules, Mr. Mann stated. Such notice would designate the examiner who would hear the case and the intervention would be required by a specific date.

He continued:

... As for the examiners, we shall recommend that they be given specific instructions to make use of the prehearing conference in every major contested case and to exercise firm but understanding control throughout—using a generous amount of common sense in dealing with the substantive problems as well as with the personalities of the parties involved.

The committee believes that adoption of its recommendations would serve to bring cases on for hearing promptly. However, the prime purpose is to shorten the period between the date on which a hearing is initiated, and the date on which the commission's final order issues. In this connection Mr. Mann stated:

Specifically, use of the prehearing conference procedure will: (1) facilitate advance discussion of trial procedure; (2) permit a clear delineation of the areas of factual and legal controversy; (3) promote agreement upon the noncontroversial issues which, under our present procedure, consume

much time and many record pages; and (4) permit the preparation of a pretrial stipulation which will spell out the areas of controversy and limit the scope of the actual trial.

The laymen in the audience were asked to impress upon their counsel and upon all concerned parties their desire for prompt handling of problems presented before the commission. Members of the bar were urged to view changes in commission rules as aids to more efficient operation of the mechanics of rule making.

**T**HE federal legislature was represented at the conference by Representative Oren Harris (Democrat, Arkansas), chairman of the House Committee on Interstate and Foreign Commerce. Congressman Harris outlined the status of current legislation affecting the gas and oil industries. He pointed out that the Interstate Oil Compact would expire this year and that his committee would hold early hearings and prompt House action was anticipated.

Natural gas legislation, Congressman Harris believes, is urgently needed to correct the existing chaotic conditions. In an effort to relieve the situation, Congressman Harris has again introduced his gas bill. He stressed, however, that he does not intend to bring it up for committee consideration, stating:

Not only does it appear to me there is little enthusiasm in the industry, and outright opposition from one segment, there is apparently less enthusiasm within the present administration itself. As yet, this question has not been included in the program of the President for this Congress. Certainly it was not included in the budget. Neither have we received any word thus far.



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In view of this apparent attitude, lack of enthusiasm or interest, my committee has plenty of other work to do and we have no time for lost motion! I therefore have no plans at this time for any scheduling of consideration of the bill and do not expect to do so unless conditions change.

As a result of the hearings conducted by the Special Subcommittee on Legislative Oversight, Congressman Harris has introduced HR 4800, a bill designed to carry out the legislative recommendations of the subcommittee. On this point he said:

One aspect of the hearings, which particularly seems to have intrigued the press, is the proven or alleged misconduct of certain members of the commissions which were under investigation, of parties involved in proceedings before these commissions, and of other persons in public or private life interested in some of these proceedings.

In spite of the interest in "proven or alleged" misconduct charges, the Congressman felt that the most important function of the subcommittee is to write into law the standards which hitherto have been left to the agencies to create through promulgation of rules and regulations.

The objective of HR 4800 is strengthening the independence and effectiveness of the regulatory agencies and increasing public confidence in their efficient, fair, and independent operation. These objectives will be reached by initiating the following:

1. Guarding against improper influ-

ence upon agency members and employees.

2. Observation of ethical standards by members, employees, parties, and practitioners.

3. Preventing the use of "off-the-record" communications.

4. Empowering the agencies to select their own chairmen.

5. Making individual commissioners assume responsibility for the preparation of agency opinions.

6. Permitting the President to dismiss commissioners for just cause.

Violation of these standards, of course, brings about criminal prosecution. Harris stated:

HR 4800 deals primarily with organizational and procedural problems and these problems I feel are a proper subject for discussion by the Federal Bar Association and by others interested in the practice of law before the Federal Power Commission.

It is my hope that the Committee on Interstate and Foreign Commerce will have the benefit of detailed and specific recommendations of your association with respect to this legislation. Your constructive criticism and your suggestions for amendments as well as your support for the principles on which this bill is based will be most welcome.

THIS conference was the eighteenth in a planned series sponsored by the Federal Bar Association. At these meetings businessmen and government officials have had the opportunity to state needs, explain policies, and in general expand the effective communication between the "governing and the governed."



## The March of Events

### New Orleans EEI Convention

**T**HE Edison Electric Institute stressed "dynamic growth" as the central theme of its three-day convention held in New Orleans, Louisiana, on April 6th to 8th.

The convention elected Allen S. King to serve as president of EEI during the coming year. Mr. King is president of the Northern States Power Company.

Retiring President J. E. Corette sketched the prospective growth pattern of the industry. He anticipated the addition of 14.4 million kilowatts of additional capacity in 1959. On the basis of past growth and projected needs he forecast that by 1968 the generating capacity of the utilities would double. This increase will be accompanied by a 25 per cent rise in the number of customers. Mr. Corette called on the utilities to strive to limit the REA to its original purpose of only supplying power to rural areas where service is not available from investor-owned companies. A reassuring note was added when he stated that America's output of kilowatt-hours will more than keep pace with Russia's electrical power growth.

The place of atomic energy in the gen-

erating field and the relationship of private *versus* government financing of such projects was presented by a member of Congress, the chairman of the Atomic Energy Commission, and a utility executive.

Senator Barry Goldwater (Republican, Arizona) warned the convention that atomic power would replace hydroelectric power as the "whipping boy" for those who advocate government-operated power projects. AEC Chairman McCone called for co-operation between public and private interests in an effort to solve the problem of generating electricity by atomic energy in an economically feasible manner. The president of The Cleveland Electric Illuminating Company, Elmer L. Lindseth, urged that the government's rôle in developing atomic power be "transitional" and that responsibility be returned to private industry at the earliest possible date. Mr. Lindseth is chairman of EEI's committee on atomic power.

Among other speakers at the convention were E. O. George, T. O. McQuiston, and G. W. Ousler, who presented a picture of an electrically heated home of the future. Individually heated rooms, low

## THE MARCH OF EVENTS

cost of installation, and cleanliness were cited as advantages derived by heating with electricity.

More than 2,000 executives of the electrical utility industry attended the New Orleans conference. The 1960 convention will be held in Atlantic City.

### REA Loan Bill Approved By Senate

THE Senate has passed and sent on to the House a bill which restores the REA Administrator's power to grant loans. The power now resides with the Secretary of Agriculture. The vote was 60-27 favoring passage. Prompt House action is anticipated since it is known that Speaker Sam Rayburn favors the legislation.

Republican critics have charged that the bill was designed to "deal" with Secretary of Agriculture Ezra Taft Benson and, should it receive a presidential veto, it is doubted that enough strength could be mustered to override the presidential action.

### Gas Industry Expands More

THE gas industry, according to recent estimates of gas utilities' proposed expenditures, should spend 14 per cent more in 1959 for plant and equipment than it did in 1958. The recession and the uncertain situation created by the Memphis decision caused the gas industry to curtail its purchases in 1957 by almost 15 per cent. In that year the gas utilities spent \$1.8 billion, but by 1958 demand for gas forced both pipelines and distributors to spend \$1.9 billion. And for 1959 the total amount spent should reach \$2,166,000,000.

American Gas Association figures indicate, based on present planning, that the industry should spend \$2,235,000,000 in

1960 and each year thereafter the amount should rise so that by 1970 a total of \$3,597,000,000 should be spent. Considerable impetus was given to the gas industry's expansion plans by the favorable ruling of the U. S. Supreme Court last December in the Memphis case.

Paralleling the industry's expenditures for new facilities will be the financial requirements of utilities. Reports received from New York financial circles point to a 15 per cent boost in financing over the amount needed in 1958. This would result in a new peak figure of \$1.3 billion, making 1959 a record financing year.

### Jurisdictional Poser for FPC

SOUTHERN CALIFORNIA EDISON COMPANY has put in a bid of 27 cents per thousand cubic feet to purchase gas direct from the producer in Bastian Bay, Louisiana. If the bid is accepted, the company will hire the Tennessee Gas Transmission Company to transport the gas to the California-Arizona border where Southern California Edison will take over and use the gas to fire its own generating boilers.

The Federal Power Commission must decide under this arrangement, whether it has jurisdiction over the price. Both producers and purchasers argue that since the transaction is not for ultimate public distribution, but to be used by one purchaser, who is also the consumer, the FPC has no jurisdiction in the matter.

The 27 cents a thousand feet bid, if accepted, would set a new record for gas prices in the Louisiana area. It includes the state's new severance tax. Consumer states in the area already have registered protests over a 25 cents a thousand cubic feet gas price which was paid for gas in the Rayne field and which is presently under investigation by the FPC. In the Rayne field case, however, there is no dispute over the jurisdiction of the FPC.

## PUBLIC UTILITIES FORTNIGHTLY

### Illinois

#### City Transit Line Plan OK'd

A MASS transportation subcommittee of the Illinois legislature has approved in principle a proposal which would give municipalities and counties authority to set up transit districts and to finance and operate commuter lines.

A bill covering the recommendation was expected to be introduced soon.

State Senate Majority Leader Donald J. O'Brien of Chicago said the plan would not solve the financial problems of the Chicago Transit Authority. However, the transit idea was designed for groups of municipalities in the Chicago suburbs.

### Nebraska

#### Loan Made by REA for Record High-voltage Line

A LOAN of \$4,887,000 has been made by the Rural Electrification Administration to finance construction of the highest voltage transmission line ever approved by the agency. The loan funds will be used by the Nebraska Electric Generation and Transmission Co-operative, Inc., in West Point, Nebraska.

The company will build 126 miles of 230-kilovolt transmission line extending from a point near the Fort Randall power plant in South Dakota to a terminal point in Columbus, Nebraska. Also, it will build a 100,000-kilovolt ampere substation at the terminal point in Columbus.

The highest voltage lines now being used by REA borrowers are 161 kilovolts.

Upon completion of construction, the Nebraska Co-operative intends to lease the facilities to the Nebraska Public Power System of Columbus, which will operate them. Nebraska Public Power is the supplier of electric power to 27 member rural electric systems which serve 87,986 farmers and other rural consumers in Nebraska. The transmission line will make it possible for these systems to obtain an additional 60,000 kilowatts of firm power needed because of increased use of electricity for domestic and irrigation purposes. The power will be purchased from the U. S. Bureau of Reclamation.

### New York

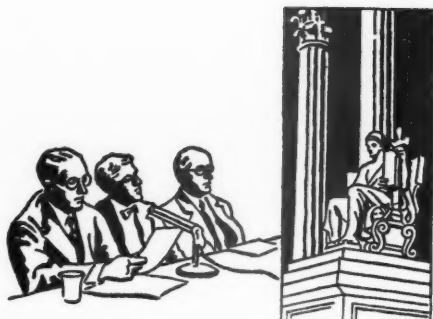
#### Rehearing Refused by FPC

IN January of this year Consolidated Edison of New York was refused permission by the FPC to import natural gas from Texas via Transcontinental Gas Pipe Line Corporation. The gas was to have been used by Consolidated Edison instead of coal to fire its generating boilers at its Waterside electric station in order to ameliorate an alleged air-pollution condition.

At that time the FPC ruled against the company on the grounds that large direct purchases of gas such as that proposed by Consolidated Edison might tend to drive

up the price of gas and pre-empt scarce pipeline facilities. The FPC also termed the use of gas as boiler gas an inferior use of the fuel, thereby implying that gas should be conserved for space-heating consumers, presumably a superior use.

An appeal for a rehearing was met with a refusal to review the case. The FPC said that the evidence did not establish that burning gas by Consolidated Edison instead of coal would remedy the air-pollution situation in New York generally. Furthermore, it held that control over the end use of natural gas was well within the purview of its authority.



# Progress of Regulation

## *Trends and Topics*

### Effect of Administrative Precedent

**F**LEXIBILITY is a vital feature of the administrative process, and one element of that flexibility derives from the administrative attitude toward precedent. While administrative agencies have borrowed considerably from the practice and procedure of the courts, it is generally said that they are not bound by the judicially recognized doctrine of stare decisis; that is, they are not bound to follow precedent. Even so, prior administrative determinations may be taken into consideration by a reviewing court.

Commission orders do not rise to the dignity of stare decisis, said the California supreme court some years ago; they are conclusive only between the same parties and only for the purpose for which they are made (PUR1923A 232). The California commission observed that it was free to re-examine its action in prior proceedings, and the fact that it might have employed a different method of fixing rates in a prior proceeding than it uses in a present case was considered immaterial (8 PUR3d 454). Whether a commission order is in conflict with a previous order is a question of no moment, the Colorado commission indicated, in view of the administrative freedom to follow or disregard a prior ruling even if it is a holding in point (81 PUR NS 142).

#### *Reason over Precedent*

This is not to say, however, that past administrative decisions have no force or effect in the determination of future cases touching the same general matters. They are a guiding force. Nor is it arbitrary for a commission to be guided by its own expert judgment as reflected in recent decisions (15 PUR3d 308).

Precedent appears to be a guide not to be followed blindly in administrative determinations but with due regard to similarity or dissimilarity of facts and circumstances. Some authorities apparently apply a kind of rule of reason in the use of precedent. Precedent should not be binding for precedent's sake, said the Florida commission, especially when there may be a better way of arriving at what the public must pay for service (17 PUR3d 109).



## PUBLIC UTILITIES FORTNIGHTLY

In ruling on leasehold development expenditures, the Ohio commission indicated that it would not hesitate to depart from what it has done before if the departure is reasonable and based on facts in the record (17 PUR NS 433). On appeal, however, without going into the merits of this policy statement, the court reversed the ruling which gave rise to it (22 PUR NS 489).

Viewing precedent in a somewhat more judicial light, the Alabama commission in an early case declared: "When the commission in any case lays down principles which are established to govern in the matter of issues there decided, such principles are intended to apply in every subsequent case before the commission where the issues involved are substantially the same as those in the case in which such principles have been declared, and such principles must be accepted as so applying until for good cause shown the commission sees fit to modify its previous holding" (Re Alabama Power Co. [1924] 35 Ann Rep Ala PSC 268). In much the same vein is a pronouncement of the Missouri commission that where a particular situation has previously been presented, the conclusions announced are controlling unless conditions are made to appear in a subsequent presentation which justify or require a different conclusion (18 PUR NS 448).

### *Departure from Established Practice*

While the federal court of appeals for the District of Columbia recognized the inapplicability of the doctrine of stare decisis to decisions of administrative bodies, it declared, nevertheless, that "radical departures from administrative interpretation consistently followed cannot be made except for most cogent reasons" (63 PUR NS 431). In this case the Federal Communications Commission had refused to renew a radio license because of misstatements of the licensee.

The court suggested that the commission had abandoned its practice of weighing misstatements along with all the elements of each situation in deciding whether the public interest would be served by the granting of a license or a renewal. A reversal by the court of appeals, however, was in turn reversed by the Supreme Court (66 PUR NS 97).

The high court thought the commission's previous policy of dealing mildly with misstatements, together with its apparently unannounced change of policy, were considerations appropriate for the commission in determining whether its action in the instant case was too drastic. "We cannot say," said the court, "that the commission is bound by anything that appears before us to deal with all cases at all times as it has dealt with some that seem comparable."

The appellate court for the District of Columbia also reversed the Federal Power Commission in a natural gas case in which the commission had abandoned a long-established rate base approach in pricing gas (11 PUR3d 113). It had adopted, instead, a field price method which was convincingly shown to be preferable. That the prior policy had been sanctioned by the courts, including the Supreme Court, was considered by the commission not to preclude the change in policy since the doctrine of stare decisis did not apply. The court ruled that if the commission was to abandon the method which it had his-

## PROGRESS OF REGULATION

torically used, it must justify the change on the record and must use the rate base at least as a point of departure.

It is noteworthy that in a very recent decision, the court of appeals for the fifth circuit said the commission need not require the use of the conventional rate base method, even as a point of departure, unless it is the only way in which reasonable rates can be determined (*Forest Oil Corp. et al. v. Federal Power Commission*, No. 16844, February 20, 1959).

### *Review of Current Cases*

#### Cost of Capital Sets Level of Return As Telephone Rates Go Up

**W**EST COAST TELEPHONE COMPANY won about one-half of the revenue increase requested of the Washington commission. New rates will produce a rate of return of 6.5 per cent on a net investment rate base, according to the commission's calculations.

##### *Cost of Capital*

In calculating the cost of capital, interest cost was taken at the actual imbedded cost. No estimate of future debt cost was deemed necessary since prudence required that the next security issue be common stock, in view of the company's capital structure. West Coast now has a 50 per cent debt ratio. The commission considered this too high as a continuing matter, saying it should be reduced to not more than 45 per cent. Taking the cost of preferred stock as fixed, and assuming the conversion of certain preferred stock, with a consequent 45 per cent common equity, the authorized 6.50 per cent rate of return would provide equity earnings of about 9.50 per cent.

The commission approved the staff's use of earnings-price ratios as a valid and useful tool in determining cost of equity capital. Such ratios indicate the rate of earnings which investors demand, and they take into account pay-out ratio and capitalization.

While a 6.50 per cent rate of return is in the upper range of the zone of reasonableness, the commission considered it justified in view of the company's need for substantial capital to finance an accelerated construction program.

##### *No Specific Attrition Allowance*

Staff studies demonstrated that there was no real need for a specific allowance for attrition. Over an 87-month period, ending with the end of the test period, the company averaged 6.6 per cent rate of return on an average net plant rate base including a 3 per cent allowance for working capital. During this period increases in taxes, wages, and unit plant costs were experienced. All the substantial factors affecting rate of return are uniformly considered in rate proceedings, the commission pointed out.

##### *Rate Base Items*

The commission adopted an average net investment rate base founded upon actual experience ending March 31, 1958, in preference to an estimated rate base submitted by the company based upon three months of actual experience and a 9-month estimate. The average of property held for future use was included in the rate base. A claim for working capital, however, was reduced by the amount of in-

## PUBLIC UTILITIES FORTNIGHTLY

ternally generated funds available for company use, resulting in an allowance for this item of approximately 2.2 per cent of average net plant devoted to service in Washington. Plant under construction was excluded since investors were fully compensated by the capitalization of interest.

### *Salary and Storm Expenses*

A claim for salary increases granted at the end of 1957 was disallowed on the ground that such increases were predominantly wage progression increases. The commission noted that wage progression increases are offset by the increased value of employees, resulting from additional training and greater efficiency. To the ex-

tent that the salary increases were for other purposes than wage progression, they would have been allowable, but since no satisfactory method of separation was apparent, none of the claim was allowed.

The staff's determination of storm damage and brushing expense, based upon monthly accruals by the company for the test year, was accepted over objections by the company. It asserted a considerably larger claim representing actual payments. Nothing appeared of record, it was pointed out, to indicate that the amounts actually paid by the company were entitled to greater weight than its book accruals. *Washington Pub. Service Commission v. West Coast Teleph. Co. Cause No. U-9037, February 16, 1959.*



## Bedroom Telephone Ordered Classified as Business Extension

**I**T was unreasonable for the Badger State Telephone & Telegraph Company to refuse to classify a bedroom telephone extension as a business extension, the Wisconsin commission ruled, in a case involving a veterinarian who maintained an office in his residence. The company had classified the extension as a residence main station bridged to a business line in the office.

The veterinarian alleged that the bedroom extension was needed to receive emergency business calls at night. He did not subscribe to residence telephone service, asserting that the number of his non-business calls was insignificant.

It is reasonable to combine business and residence use of a telephone where a business is conducted from a residence, the commission pointed out, provided that the

service is classified as business and the residence use does not appreciably interfere with the business use. Since the company holds itself out to render business extension service, it was unreasonable for it to refuse to install business extension service in the bedroom on the mere ground that this subscriber did not take residence service. Furthermore, it is unreasonable to bridge two separate telephone services unless the subscriber requests such service, said the commission.

The company was ordered to classify the bedroom telephone as a business extension. It was also directed to provide the subscriber with any other business extension telephones that he might desire. *Tharp v. Badger State Teleph. & Teleg. Co. 2-U-5075, February 5, 1959.*



## Mandamus Suit to Compel Service

**T**HE Louisiana court of appeals ruled that a property owner was entitled to

a trial on the merits in a mandamus suit to compel a gas company to furnish meters

## PROGRESS OF REGULATION

and gas to his premises. The court reversed a lower court decision, dismissing the suit on the defendant's mere exception.

On the admissions of the company that it was a public service company with a franchise to furnish meters and gas, there was a public duty to furnish service unless the company asserted and proved legal

and factual grounds for refusing to do so, the court stated. Where a company with a franchise arbitrarily or unjustifiably refuses to provide service, it can be compelled by mandamus to perform its service obligation. *Louisiana ex rel. Thalheim v. Louisiana Gas Service Co.* 107 So2d 817.



### Purchase Price and Property Additions Not a Proper Basis for Fair Value

THE Arizona supreme court upheld a lower court which had reversed a commission decision on rate bases and rates of return for water utility properties of Arizona Water Company. The trial court was held to be correct in setting aside and remanding orders finding the fair values of the properties to be the purchase price plus additions subsequent to purchase and finding the earnings requirements to be 5 per cent of that amount.

#### *Fair Value Basis Required*

The commission, said the court, must exercise reasonable judgment concerning all factors affecting fair value at the time of the inquiry, but if the commission abuses its discretion in considering these factors or if it refuses to consider all relevant factors, the fair value cannot have been determined under the state Constitution. No formula is prescribed by the Constitution, but, the court continued, the commission must establish the rate base "on the basis of fair value and that alone."

There was said to be no error in requiring the commission to consider both original cost less depreciation and reproduction cost new less depreciation where evidence on these factors was submitted. These factors were said to be relevant, particularly where there had been considerable time since the original construction of the utility.

#### *Value at End of Test Period*

Since fair value is to be determined as of the time of the inquiry, the trial court was correct in requiring that original and reproduction costs at the end of the test period, rather than those of some earlier date, or some average date, be used. There may have been additions to or deletions from the properties after the beginning of the test period.

Average costs, average earnings, average customers, etc., over the test period may be necessary in order for the commission to get a fair earnings picture, as such a test period method avoids seasonal peaks and valleys in operations. But in finding the fair value rate base, "the only relevant original cost figure" is that computed at the time of the inquiry, or as near as possible thereto. The court continued: "An 'average original cost' figure found by averaging the original costs less depreciation as computed at the beginning and at the end of the test period, thus roughly halving any additions or deletions, is simply not the original cost at the time of the inquiry and should not be used as regarding the physical property. The estimates of reproduction cost new less observed depreciation should also be as close to the time of the inquiry as possible."

#### *Recent Purchase Price Not Fair Value*

The commission's contention that a re-

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cent purchase price was market value and that market value would be fair value was rejected. A public utility may not have a market value, as the term is commonly used, since such things are not routinely and commonly sold on the public market. There would be many elements and considerations involved in arriving at the price to be paid for a public utility which could be of no concern in arriving at fair value. In the instant case there was testimony that the seller of the properties under consideration was willing to take a price less than the book value, because the transaction would give it a tax saving of one and

one-half million dollars, a power contract worth a million dollars, as well as hundreds of thousands of dollars in interest. Here the purchase price happened to be less than the book value.

Under the law of fair value, the court continued, a utility is not entitled to a fair return on its investment, but is entitled to a fair return on the fair value of its properties devoted to the public use. Under this test it makes no difference whether the utility "bought it, received it as a gift, or won it in a lottery." *Arizona Corp. Commission et al. v. Arizona Water Co.* 335 P2d 412.



### Customer Advances Excluded from Fair Value

THE Illinois commission authorized a gas company to increase rates so as to produce a return of 5.95 per cent on a fair value rate base. The commission noted that it was required to base rates and charges upon the present value of utility plant used and useful in providing service; and in determining such fair value it was required to give reasonable consideration to reproduction cost properly depreciated as well as original cost less the reserve for depreciation and other associated factors.

The company had failed to delete that

portion of the property represented by contributions in aid of construction and customer advances toward construction. The commission noted that to leave the dollars represented by such advances in the rate base would be granting the company a return on property in which it had no investment but rather on property which was covered by customer investment. The fair value of property dedicated to public use should be reduced to properly reflect plant investment supported by customer investment, held the commission. *Re Illinois Power Co. No. 44547, August 18, 1958.*



### High Water Rate Imposed to Coerce Taking of Electric Service Held Discriminatory

THE Louisiana court of appeals struck down as confiscatory and discriminatory a water rate which the city of Monroe imposed upon certain customers outside the municipal limits. An injunction was granted.

The city had acquired a water system outside the city from a private owner and had undertaken to continue service to cus-

tomers of the system. No other water service was available in the area. The city also furnished electric service in the same outside territory in competition with a private company. In an effort to win electric customers, the city increased the water rate to water customers in this area who did not also take electric service. The new charge amounted to about four times the



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charge for water service to customers who took both water and electric service from the city.

A notice to customers recited that the increased rate classification was put into effect because it was uneconomical to supply city water beyond the city limits. Upon petition by customers for a declaratory judgment and an injunction against such a high water rate, the trial court had sustained the city's objection of no cause of action, holding, in effect, that the high rate to nonusers of municipal electric service was based on a reasonable classification, and noting that such users were not compelled to take water service if they did not care to pay the rate demanded. They could dig wells, it was suggested.

### *A Proprietary Undertaking*

Discussing the nature of municipal powers, the court observed that a municipality has two classes of powers, one public and the other private. In its public character it represents the state and is not answerable for the malfeasance or nonfeasance of its agents. In the exercise of its private powers, the municipal corporation represents the pecuniary and proprietary interests of individuals and is held to the same responsibility as is a private corporation. In the operation of a public utility, a municipality is in precisely the same position as a private corporation and is governed by the same rules.

By acquiring the private water system outside its boundaries, the city of Monroe not only acquired the rights and assets of the previous owner but also succeeded to its obligations. One of the principal obligations of both private and municipal utilities is to serve at reasonable and nondiscriminatory rates. Thus, the city had the

duty to maintain nondiscriminatory rates among its customers outside the city not only because of its duty as a municipal plant but also because of its assumption of the obligation which the law imposed upon the former owner of the outside system.

Moreover, a public utility has no right to refuse to render service because of a collateral matter not related to such service. The court held that there is no difference between a refusal to render service and the fixing of a discriminatory rate. Plainly, the mere fact that various classes of users may be charged different rates does not alone constitute unjust discrimination. But rate classifications must be reasonable. That the rate here complained of was discriminatory in fact could not be denied, the court declared.

### *Electric Business Is Collateral*

The business of the city in supplying water service is completely separate and distinct from its business of supplying electric service, it was pointed out. Customers have the privilege to determine whether they shall take one or both of the commodities which the city sells. A condition which penalizes the failure to take both, in effect, imposes an obligation to take both or neither. As a consequence it is unreasonable, capricious, and discriminatory.

The basis of the high rate here complained of was held to be entirely collateral to and unconnected with the water service. The court observed that the city had no more right to condition its charge for water on the purchase of electric service than it had to exact patronage of the city's bus line or particular grocery stores. *Hicks et al. v. City of Monroe Utilities Commission et al.* 108 So2d 127.



## Commission Participation in Power Contract Not Basis for Condemnation Bias

THE Vermont supreme court, in affirming a commission order authorizing an electric power company to take a right of way by eminent domain, held that the commission was not rendered judicially unfit to decide the issues in the condemnation proceeding by virtue of its having contracted to make the purchase of St. Lawrence power available to rural and domestic users at the lowest possible cost.

The commission had acted pursuant to statutory duties imposed upon it by legislative enactment, pointed out the court, and it could not be inferred that the commission had wrongfully decided, in advance of the hearing in the condemnation proceeding brought to acquire a right of way for construction of a power line to transmit energy generated at the St. Lawrence power project, that public necessity required the appropriation of the right of way across the condemned land.

To work a judicial disqualification, the interest must be proprietary or such as affects personal rights of a judge as an individual. In the absence of an express statutory prohibition, a remote interest such as appeared in this case did not disqualify.

The court held that the contractual undertaking of the state was not in conflict with the constitutional article which provided that the owner ought to receive an equivalent in money when his property is taken for public use. The court, reviewing the condemnation order, could not attribute to such contractual language any method or intent to abrogate the constitutional protection or to wrongfully influence the commission in the exercise of its quasi-judicial function.

The constitutional command for equal protection and due process, said the court, is not subject to application by precise formula or exact definition. The requirements of due process do not demand an ideal system for the administration of justice, with provision against every hardship that may befall.

When a state enters into a contractual obligation it puts aside, within limits, some of its sovereign attributes. But it does not, and cannot, bargain away inherent powers or constitutional guaranties. It had not done so in this case. *Vermont Electric Power Co., Inc. v. Anderson et al.* 147 A2d 875.



## Permission to Pass on Franchise Taxes to Customers Denied

THE Missouri commission denied an electric company's request for permission to pass on gross receipts taxes in excess of 5 per cent to customers in the communities levying such taxes. The company was presently paying all incorporated communities served by it a license tax in the amount of 5 per cent of revenues. The taxes paid were included in operating expenses.

The commission, in denying the request, pointed out that there was no indication the cities contemplated an increase in the

franchise tax. However, the commission commented that if additional taxes were later imposed, with the result that residents of other communities with lesser taxes would be subsidizing the community with higher taxes, the company could then file revised tariffs.

### Apportionment

The company owned a small electric distribution system in another state. Plant and income of the out-of-state operation accounted for less than one-twentieth of

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one per cent of the total. Exclusion of the out-of-state operation would affect the percentage of the company's return by less than one-hundredth of one per cent regardless of how such rate was computed, the commission noted. Because of the negligible effect of the out-of-state operation upon the total operations of the company, little or no consideration was given to the out-of-state operation.

### *Transportation Service*

The company provided transportation service in a certain city. Such service was incurring an annual loss of over \$200,000. The commission had previously approved consideration of the transportation service in combination with the company's other services, and continued to do so in this case, since the service was essential.

The commission said that if the operating income for the test period had been sufficient to provide the company with a satisfactory return and at the same time

include the transportation service operating loss, then there would have been that amount of operating revenue supplied by customers of electric and steam service to compensate for the transportation loss. However, the operating income for the test period had been insufficient to provide a satisfactory return, excluding the operating loss for transportation service, so there had been no discrimination.

The commission held that the operating loss should be absorbed by residents of the city, which accounted for the fact that the average increase in rates in the city amounted to slightly less than 11 per cent, and slightly less than 6½ per cent for all other areas.

The increase authorized would provide a return of 6.5 per cent on an original cost rate base, and 5.37 per cent on a fair value rate base. The commission considered the returns reasonable. *Re St. Joseph Light & Power Co. Case No. 13,998, February 27, 1959.*



## Customer Surcharge for Municipal Taxes Disapproved

THE Missouri commission declined to permit Missouri Utilities Company to amend its rules so as to surcharge customers in appropriate communities for the amount of any future increases in gross receipts and franchise taxes that might be imposed by municipalities. At present, such taxes are fixed at 2½ per cent of gross receipts, and the company charges them to system-wide operating expenses.

The commission said, simply, that it considered such an amendment inappropriate in this case. The company's schedule of electric rates takes these taxes into account at the 2½ per cent level, it was noted, so that if the requested authority were granted and a municipality were to increase the tax, then the charges for that community would contain not only an al-

lowance for franchise taxes treated as a system-wide operating expense but also a surcharge for the additional tax. The commission indicated, however, that if additional taxes are later imposed and the company files revised tariffs to reflect them, prompt consideration will be given the matter.

Commissioner McClintock, dissenting, pointed out that if future tax increases are not surcharged to the customers in the municipality concerned, they will have to be partially borne by other customers who receive no benefit from the tax. It was noted that the commission has recently handed down a decision authorizing a gas company to pass on license taxes directly to customers in the communities levying them. But that case, unlike the instant pro-

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ceeding, involved taxes levied without uniformity between the communities so as to necessitate direct surcharging in order to obviate discrimination.

### *Rate Increase Allowed*

No difficulty was encountered in approving a rate increase. The schedule of rates which the company proposed was calculated to produce a rate of return of 5.94 per cent based on a net original cost rate base. No claim was made for a reasonable rate of return on reproduction cost or present fair value of the company's property. As Commissioner McClintock observed, the consideration of such a value basis could have been demanded under a

1957 decision of the Missouri supreme court (22 PUR3d 254).

Intervenors objected to the proposed spread of the revenue increase. The commission approved the assignment of a major part of the increase to small consumers, with no increase in rates to schools, churches, municipalities, and industry. It appeared that the rate increase found to be necessary was primarily due to causes other than the bare cost of power, which was not considered excessive. Rising costs applied to materials, operations, meter reading, billing, collecting, record keeping, and other such items. *Re Missouri Utilities Co. Case No. 14,002, February 18, 1959.*



## Public Convenience Overrides Zoning Objections

THE Connecticut commission reversed a zoning board's denial of a water company's application for permission to construct a second water tank on land owned by it where, from the engineering and cost and public convenience and necessity standpoint, construction at the site offset the possibility of deteriorating real estate values.

Use of any of the alternate sites urged by opponents would have required the purchase of land not presently owned by the company, which might have had to be acquired through condemnation. Also, other sites would have required the construction of additional pipelines to link the standpipe with the company's distribution system, erection of a standpipe at a point at a greater distance from the center of the area to be served, erection of a standpipe at a point that would be hydraulically inferior to the proposed site, and an unnecessary increase in plant investment which would have had to be borne by present and future patrons in the form of higher rates.

No objective evidence had been presented by opponents in support of their contention that deterioration of property values would result from the construction of an additional tank on the proposed hill. The commission held that the claim was not of sufficient probative value to constitute a substantial factor in the determination. If such deterioration of property values would occur, it pointed out, such deterioration would also occur at any of the other sites proposed by the opponents.

Even if it had been demonstrated that the construction of the additional standpipe would have caused values of nearby properties to deteriorate, the commission was required by law to look to the urgent and compelling need of the greater number of people for an adequate and dependable essential utility service, and weigh such need against the interest of a small number of adjacent property owners and considerations of local zoning. *Re The New Haven Water Co. Docket No. 9680, February 25, 1959.*



## PROGRESS OF REGULATION

### Federal Discontinuance Statute Held Constitutional

THE U. S. district court has held that § 13a of the Interstate Commerce Act as amended by the Transportation Act of 1958 does not violate the Fifth Amendment since it is within the commerce power of Congress. The section authorizes a carrier to discontinue service upon filing of notice and gives the Interstate Commerce Commission authority, during the 30-day notice period, either on complaint or its own initiative, to enter on an investigation of the proposed discontinuance.

In this case, the New York Central Railroad had sought to discontinue service on a branch line which transported commuting passengers by rail and ferry between Rockland county, New York, and Bergen county, New Jersey. The court held that the statute gave the Interstate Commerce Commission absolute discretion in so far as investigation, within the 30-day period, of a carrier's proposed discontinuance. Such action was not reviewable in the district court because it was not one to "enforce, enjoin, set aside, annul, and suspend, in whole or in part," an order of the Interstate Commerce Commission. On the contrary, the plaintiffs complained of the refusal of the commission to act; i.e., to

enter upon an investigation of the complaint. No "order" of the commission was complained of.

Since Congress could have always exercised its plenary power over interstate commerce without employing the intermediary of a commission, said the court, it can still exercise that power directly by legislative mandate without channeling such exercise through the commission. The Interstate Commerce Commission was created by Congress for the purpose of receiving and administering such of the congressional power over interstate commerce as was thereby delegated to it. *New Jersey et al. v. United States et al.* 168 F Supp 324.

In a companion case, the court made similar rulings with regard to the proposed discontinuance of ferry service across the Hudson river between Jersey City, New Jersey, and New York city, on the part of the Erie Railroad. The complaint requesting the court to declare that § 13a violated the Fifth Amendment and was not a proper exercise of Congress' power to regulate interstate commerce was dismissed. *New Jersey v. United States*, 168 F Supp 342.



### Reduction in Rates Approved by Commission No Basis for Reparation

THE U. S. district court held that a shipper was not entitled to reparations for increased charges paid during a certain period. The commission had granted a railroad a rate increase without notice or hearing, but had determined, three months later, that the new rates were unreasonable and ordered their reduction.

The general rule, pointed out the court, is that a rate prescribed or approved by a commission, acting under its delegated legislative authority, bars reparation for

charges or rates collected thereunder. This rule is based on the theory that when a commission approves a rate, it does so in its legislative capacity and the carrier concerned is entitled to rely on the rate just as if it were contained in a statute. Only when the rate is carrier-made, does the carrier assume responsibility for its reasonableness. In the case at bar, the commission had specifically approved the proposed rates.

Although the same commission three



## PUBLIC UTILITIES FORTNIGHTLY

months later decided that the rates were unreasonable, it did not follow, said the court, as a matter of law, that they were unreasonable at the time they were first effective. The commission order did not make the rates unreasonable retroactively, but spoke only as of the date of the order. Secondly, the statutes specifically provided

that if the commission concludes that the change proposed is fair and reasonable, it could grant the application without notice and hearing. Thirdly, another statute provided that the rates so published should be deemed just and reasonable. *American Crystal Sugar Co. v. Great Northern R. Co.* 168 F Supp 80.



### Injunction against Denial of Service Because of Arrearages of Previous Occupant

THE U. S. district court held that the federal government was entitled to a preliminary injunction restraining a water company from cutting off service to mortgaged premises because of arrearages by the mortgagor. The federal government, as mortgagee, had taken possession of the premises and was collecting rents with the consent of the mortgagor under a provision of the mortgage that, upon default, the federal government could enter and collect rents and apply them to the payment of all charges and ex-

penses on account of the indebtedness.

A private water company, held the court, cannot shut off the water supply of a grantee because of arrears in water charges owing by a grantor or shut off a water supply of a tenant because of arrears owing by a predecessor in the tenancy. If a receiver is in possession of mortgaged realty to collect rents for a mortgagee, a private water company has no right to shut off the water because of arrears in water rents. *United States v. Springwood Village, Inc. et al.* 168 F Supp 885.



### California Commission Criticizes Transportation Act of 1958

THE California commission, in passing upon a railroad's application to consolidate certain passenger trains and discontinue the operation of others, felt it necessary to set forth its views on service discontinuances, in view of § 13a of the Interstate Commerce Act, as added by the Transportation Act of 1958, which permits carriers to discontinue service upon notice, and authorizes the Interstate Commerce Commission to investigate the proposed discontinuance during the 30-day notice period.

The commission stated that its policy is to insist upon the preservation and maintenance of reasonably adequate railroad passenger service and modernization and

improvement of such service. Instead of such service being degraded, it should be improved so that the railroads may more effectively compete for the passenger business of the nation, the commission said. The Transportation Act of 1958 is contrary to the public interest, in so far as it not only permits but actually invites railroads summarily to abandon interstate passenger trains and also to seek federal intervention to abandon purely intrastate passenger trains.

The commission was not unaware of the difficult situation in which the railroads in this country find themselves because of the competition of the private automobile and other forms of transportation. However,

## PROGRESS OF REGULATION

the commission felt that the defeatist attitude of many of the railroads as regards passenger service has largely contributed to this regrettable situation. In the commission's opinion, the Transportation Act of 1958 adds to the difficulty of the problem rather than contributing to its solution. A railroad should be as zealous to maintain reasonable and adequate service as governmental authority is to see to it that such service is maintained, said the commission. It is a lawful duty of a railroad not only to perform its public duty, but to perform it willingly and not to wait until it is compelled to discharge that duty by lawful authority.

Unlike a proceeding involving a general rate adjustment, a proceeding involving the abandonment or reduction of service addresses itself to public convenience and necessity rather than to a matter of confiscation, the commission pointed out. It is

a general rule of regulatory law that a utility may not demand that each segment of its service be profitable or that it realize its out-of-pocket cost in connection with each segment of its service. Public convenience and necessity may require the operation of a particular service at a loss; and if so, the utility may not complain.

In the commission's view, the service performed by the railroads, both passenger and freight, takes second place to no other public service being performed. As far as California is concerned, said the commission, and to the extent that the commission is permitted so to do, service will be protected and maintained to the end that the public shall be served. The commission could not preserve the railroads by taking action which would lead only to their destruction. *Re Southern P. Co. Decision No. 58111, Application Nos. 38039 et al. Case No. 5829, March 10, 1959.*



### Condemnation Procedure

THE Vermont supreme court held that the absence of a statement of the commission's rulings of law from a stenographic transcript did not amount to a failure to comply with the requirements of a statute that the commission should state its ruling of law when excepted to. The defendants had presented their motions to dismiss the proceedings on sub-

stantially the same grounds as similar motions presented in a prior condemnation case. No objection had been made when the commission indicated its intention to accede to the suggestion that the motions and rulings made in the prior case be incorporated from the transcript of that case. *Vermont Electric Power Co. v. Boynton, 147 A2d 884.*



### Rate Differential Not Chief Determinant

THE Wisconsin commission denied a petition to have a territorial agreement between a municipal electric plant and an electric company set aside so that the municipal plant could serve the petitioner and others. While it is true that a territorial agreement, binding upon the parties, may be set aside by the commission upon a showing of good cause, the

commission said, it is equally true that a rate differential cannot of itself be the chief determinant in a proceeding to set aside the provisions of a territorial agreement. The petition was denied on the ground that public convenience and necessity did not require the setting aside of the territorial agreement. *Re Murgatroyd, 2-U-5074, February 20, 1959.*

## PUBLIC UTILITIES FORTNIGHTLY

### Claim for Money Judgment Not within Jurisdiction of Commission

THE commission has no jurisdiction to adjudicate purely private matters between a utility and an individual or corporation, nor to render what in essence is a money judgment in favor of one party against another, declared the Indiana commission. Thus, the commission denied a request by petitioners for an administrative determination as to what part of a water main extension charge should be refunded on account of the connection of subsequent customers, and also to what extent the extension charge was excessive. The further request for an order directing

the utility to pay the amount so found to be due was denied.

These requests have one common quality, the commission noted. They seek a specific order directing a specific utility to pay a liquidated amount of money to a specific individual or corporate entity. This amounts to a money judgment which one would seek in a court of law in private litigation between private parties. It is in the nature of a civil dispute and beyond the jurisdiction of the commission. *Re Indiana Gas & Water Co. No. 27593, February 13, 1959.*

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### Other Recent Rulings

**Roanoke Agreement.** The U. S. court of appeals held that the Roanoke Agreement, pertaining to divisions of traffic interchanged at all interior gateways, superseded a prior agreement between two railroads with respect to such divisions so as to govern in an action brought by one railroad to recover sums collected by the other railroad on freight shipments originating on the plaintiff's lines and delivered by plaintiff to a certain point for transportation to final destinations on the defendant's lines. *Chicago & E. I. R. Co. v. Southern R. Co.* 261 F2d 394.

**Land-grant Rates.** The U. S. court of appeals held that the use to which property is to be put is the controlling test of its military or naval character, for purposes of determining whether land-grant railroad freight rates apply. *United States v. Spokane, P. & S. R. Co.* 261 F2d 681.

**CAB Findings.** The U. S. court of ap-  
APRIL 23, 1959

peals held that Civil Aeronautics Board findings, under a statute permitting the board to exempt an air carrier from certificate requirements if it makes certain findings, may not be merely a recital of the statute, but they must be such that a reviewing court can test their validity. *Pan American World Airways, Inc. v. Civil Aeronautics Board*, 261 F2d 754.

**Stay Denied.** The U. S. court of appeals held that petitioners seeking review of a CAB order granting amended certificates were not entitled to a stay of the order where the petitioners were not likely to prevail on the merits of the appeal, had not shown that without a stay they would suffer irreparable injury, that there would be substantial harm to other interested persons, or that the public interest would be harmed. *Eastern Air Lines, Inc. v. Civil Aeronautics Board*, 261 F2d 830.

**Standing to Protest.** The U. S. court of

## PROGRESS OF REGULATION

appeals held that a party must be adversely affected or aggrieved by a proposed modification of a television construction permit in order to have standing to protest the grant of the application for modification. *Tennessee Television, Inc. v. Federal Communications Commission*, 262 F2d 28.

**Reciprocity Denial.** The U. S. district court held that common carriers from one state engaged in interstate commerce were not entitled to a declaratory judgment and injunctive relief with respect to denial of their applications for reciprocity filed with the secretary of another state pursuant to a reciprocity agreement between the two states, in the absence of a showing of a clear violation of some provision of the agreement or a failure to observe and carry out procedure provided by the agreement. *Aero Mayflower Transit Co., Inc. et al. v. Carpentier*, 167 F Supp 898.

**Municipal Competition.** The U. S. district court held that a municipality had a right to acquire or construct an electric distribution system, notwithstanding that an electric company presently served the city under a nonexclusive franchise, provided the municipality acted within the powers granted to it by law. *Mississippi Power & Light Co. v. Town of Coldwater*, 168 F Supp 463.

**Refund of Impounded Fares.** The U. S. district court held that a railroad was entitled to the balance remaining in an impounded fares fund after refunds to passengers and after payment of plaintiff's expenses had been made, where the ICC had approved an increase and the district court had enjoined the order and, on the railroad's motion, had stayed the injunction pending appeal and provided that the excess fares should be impounded and re-

funded to passengers on affirmance. *Illinois et al. v. United States et al.* 168 F Supp 706.

**No Contractual Relationship.** The U. S. district court held that leases between two railroads, stating that the promises of the lessee railroad should run only to the lessor railroad, were no bar to the merger of the two railroads since the lessee railroad had no contractual relationship with the lessor railroad's stockholders. *Friedman v. United States*, 168 F Supp 815.

**Basic Findings.** The U. S. district court held that an ICC statement that proposed railroad rates were reasonably compensatory was a mere conclusion and not enough to support an order in the absence of basic findings. *Seatrains Lines, Inc. v. United States et al.* 168 F Supp 819.

**Transfer of Permit Denied.** The Alabama supreme court upheld the commission in refusing to allow a corporation to transfer a carrier permit where the corporation had acquired the permit from its predecessor, a partnership, without a valid transfer based on a commission finding that the corporation was fit and qualified. *Capital Transport Co., Inc. et al. v. Alabama Pub. Service Commission*, 108 So2d 156.

**Truck Transportation in Rail Territory.** The Florida commission authorized a motor carrier to haul bulk mineral products and road construction aggregates in territory served by rail transportation, principally upon evidence that truck service afforded certain inherent advantages and that alternative transportation appeared to be essential to the modern conduct of businesses which would use the proposed service. *Re Rockana Carriers, Inc. Docket Nos. 4753-CCT et al. Order No. 4507, February 16, 1959.*



## PUBLIC UTILITIES FORTNIGHTLY

**Contractual Crossing Costs.** The Michigan supreme court ruled that a railroad was not obligated to share in the cost of relocating automatic flashing signals at a grade crossing, in view of a contract entered into many years ago between the railroad and the state highway commissioner placing the burden of such cost upon the highway department. *Grand Trunk Western R. Co. v. Michigan Pub. Service Commission*, 93 NW2d 919.

**Remand for Findings.** Noting the commission's expertise in its regulatory province, the New Jersey superior court remanded a proceeding in which a bus route extension had been approved, directing that requisite findings be made. *Re Marion Bus Transp. Co.* 147 A2d 294.

**Certificate Condition.** The New York supreme court held that the commission was not precluded from imposing a condition, in granting a certificate to a carrier, that the carrier should not engage in interstate commerce within the state, where the condition merely sought to prevent two transportation operations opening up where only one had existed before. *Oswego Transp. Lines, Inc. v. Feinberg*, 181 NYS2d 1007.

**Abandonment Denial Order Upheld.** The Wyoming supreme court declined to disturb a commission order denying a railroad application to discontinue motor express service, inasmuch as no effort had been made to show a lack of public convenience and necessity for the service or that an alleged loss to the railroad was more serious at present than at the time of a prior order when the service was voluntarily offered. *Re Chicago & N. W. R. Co. et al.* 334 P2d 519.

**Municipal Sewer Plant Return.** The Wisconsin commission considered reasonable a return of 5.58 per cent on a municipal sewer plant's net book value rate base. *Re City of Rhinelander*, 2-U-5116, February 27, 1959.

**Municipal Water Plant Return.** The Wisconsin commission considered reasonable a return of 5.5 per cent on a municipal water plant's net book value rate base. *Re Village of Whitefish Bay*, 2-U-4939, March 13, 1959.

**Municipal Water Plant Rate Base.** The Wisconsin commission held that estimated book value of a municipal water plant's property, plus materials and supplies and working capital and less contributions, constitutes a reasonable and proper rate base. *Re Village of Fox Point*, 2-U-4940, March 13, 1959.

**Gross Earnings Show Public Need.** In denying an application by a railroad for permission to discontinue a station agency near New Orleans, the Louisiana commission pointed out that gross earnings attributable to the station were more important as a measure of public necessity than were net earnings. *Ex Parte Texas & N. O. R. Co. No. 7598*, Order No. 7710, December 19, 1958.

**Competitive Proposal Unsupported.** In overturning a commission finding that the public convenience and necessity required additional carrier service in an area served by other carriers, the Utah supreme court pointed out that there must be proof in such a case that existing service is inadequate. *Lake Shore Motor Coach Lines, Inc. et al. v. Bennett et al.* 333 P2d 1061.



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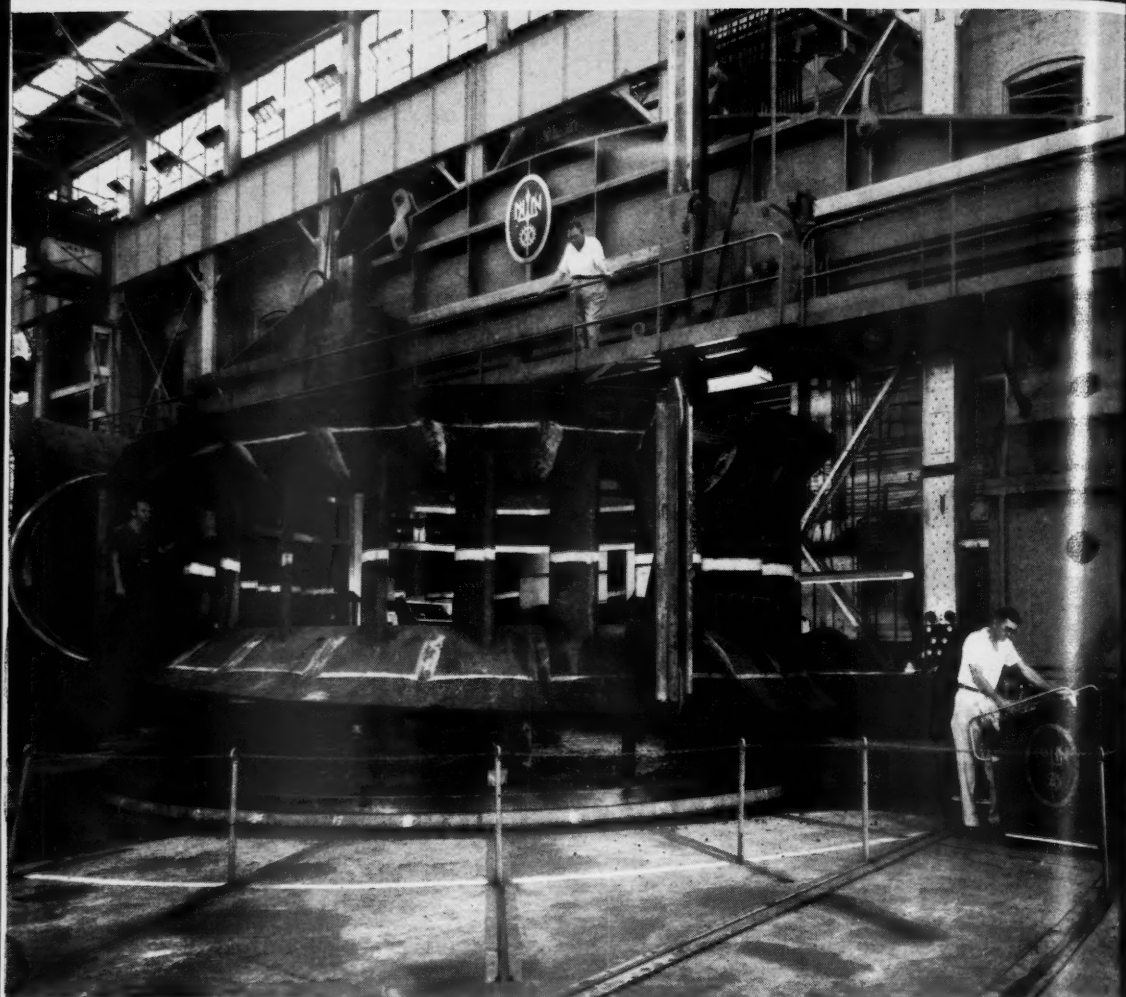
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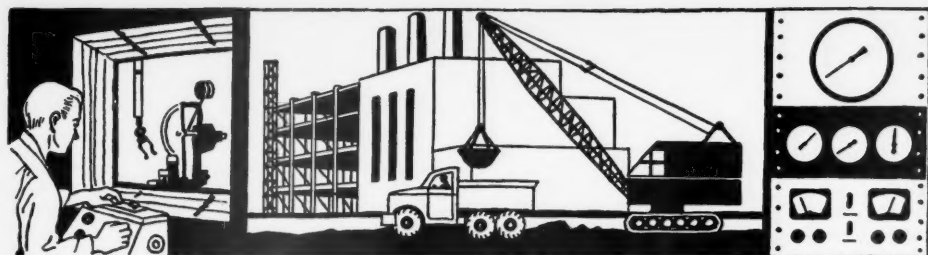
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## Industrial Progress

### Detroit Edison Reports \$830,000 Expenditure in 1958

Detroit Edison construction expenditures for 1958 were \$74,830,000—about 8.4 per cent less than those of 1957, according to the company's annual report. Nearly 43 per cent of this went into completion or continuation of work on new generating facilities at River Rouge and St. Clair power plants, and the first stages of construction of the non-nuclear or steam turbine-generator portion of the Enrico Fermi Atomic Power Plant near Monroeville, Michigan.

The 321,500-kilowatt generating unit was the third at the River Rouge plant, placed in service last October, completing the initial three-unit section of the plant. At the St. Clair plant, construction of a fifth generating unit, scheduled to go into operation this April, was continued. Work on the sixth unit also was carried forward. Completion of all these projects will bring Edison's total generating capacity to about 4,200,000 kilowatts by the end of 1961.

The balance of the 1958 construction expenditure included one new transmission switching station and 14 distribution stations; work on overhead and underground transmission lines; expansion of the company's Beacom heating plant; and further rebuilding and conditioning of the Warren Service Center.

In the report to shareholders, Detroit Edison President Walker L. Brown summarized the company's activity in developing atomic energy for generation of electric power. Detroit Edison is a member of Atomic Energy Development Associates, Inc., a Power Reactor Development Company, which are responsible for planning, financing and building the

nuclear portion of the Enrico Fermi Atomic Power Plant.

Detroit Edison is building, and will own and operate the steam turbine-generator facilities and will purchase and utilize steam from the reactor plant for the production of electricity for its service area. Both the nuclear and non-nuclear sections of the project were reported progressing on schedule, with initial low-power nuclear operations expected in October, 1960.

In November, 1958, Edison joined 51 other utilities in a third non-profit atomic power development project, High Temperature Reactor Development Associates. HTRDA was organized to support the research and development of components required for an advanced-type high temperature gas-cooled reactor to be built, owned and operated by Philadelphia Electric Company.

The report also points out that in 1958 the company added about 21,000 new customers, which is less than its usual growth, and that average annual use of electricity per domestic customer rose to 3,211 kilowatthours—considerably above the average for other electrical systems that include large cities in their service areas.

The report calls attention to the company's research and development programs, which in addition to atomic power activities are exploring such matters as the use of higher transmission and distribution voltages, development of underground residential distribution for new subdivisions, and further use of electronic computers in record-keeping and engineering problems. Another special activity is a broad and vigorous area development program directed toward bringing more industry into Southeastern Michigan by effectively promoting the state's outstanding natural industrial advantages.

### \$30,100,000 Program Planned By Arkansas Power & Light

TO meet anticipated demands for power and to provide better facilities, Arkansas Power and Light Company (Little Rock, Arkansas) invested more than \$14,000,000 in new and expanded facilities during 1958. R. E. Ritchie, president, informed stockholders in its annual report. This compares with \$10,600,000 spent in 1957. Extensions to new customers and improvements to the distribution system required the larger part of the 1958 construction expenditures.

During the year, construction was started on the largest generating unit in the Middle South System on the Mississippi river at Helena. Construction cost of the plant is estimated at \$43,000,000. To be completed in 1961, the 325,000-kilowatt turbine-generator is termed by the manufacturer, Westinghouse Electric Corporation, to be the largest of its type ever built.

To keep production and delivery facilities ahead of demands, the company in 1959 is undertaking its largest construction program since 1953. The largest share of a \$30,100,000 budget—approximately \$17,100,000—is required for power production facilities. Other construction expenditures for 1959 are estimated at \$9,400,000 for distribution improvements, \$2,000,000 for transmission, and \$1,600,000 for office and service facilities.

### G-E Official States Gas Turbines Help Reduce "Peaking" Costs

A NEW, specially-designed combustion gas turbine will substantially help stem the rising cost of producing electric power, a General Electric Company executive predicted recently.

Charles W. Elston, general manager  
(Continued on page 22)



of the company's Gas Turbine Department, pointed out that "peaking"—large demands for electric power of short duration nature—is becoming a mounting financial problem for the nation's utilities.

"Until now utilities have depended on less modern equipment to generate power during these brief but heavy demand periods while adding new, more efficient steam turbine power plants to meet the climbing electric power requirements," Elston said.

But now, he stated, the new base load steam turbine power plants being installed do not offer the substantial improvement in efficiency previously used to offset the system's overall cost of power generation. "Therefore, there is today a strong incentive by utilities to reduce capital expenditures through the use of peak load equipment," he said.

To understand this peaking problem, Elston likened the situation to a homeowner who needs a second car for occasional use to drive to the market several times a week. "You certainly wouldn't buy a limousine for that short period of service," he noted.

"So, too, a low-cost, electric power generating prime mover should be used by the utilities," he said.

Ideally suited for generating peaking power is this remote controlled, combustion gas turbine which has been developed by the General Electric Company after five years of market research and numerous electric utility systems studies.

"Just one decade ago General Electric introduced the combustion gas turbine to the nation," he said, "and today 189 of these machines are performing a myriad of jobs in some of the most adverse operating conditions."

With 3,000,000 hours of operating experience to draw upon, General Electric's engineers designed a new peaking gas turbine which, as G-E Turbine Division Vice President William Ginn says, "Offers the greatest promise of answering electric utility peaking requirements of the future."

Elston pointed out that electric utilities keep accurate and detailed records of the amount of power consumed practically each minute of every day. They know when the usual peak demand load is coming, and can predict with great accuracy the amount and duration of this load.

"Just 20 minutes before the peak demand is expected, the gas turbine can be remotely started and when the demand surge occurs, the peaking unit

can supply the additional electric power to the system," he said.

Today steam turbine power plants being used for peaking must have their boilers started many hours in advance of the peak demand; the steam turbines must be brought up to operating speed slowly; and then the cycle must be reversed after the peak demand is over. All in all, it means perhaps a 12 hour chore for maybe two hours of useful power generation.

"The peaking combustion gas turbine is by far the best solution to this utility problem," Elston said.

He pointed out that this modern prime mover can be located almost anywhere in the utility system since cooling water requirements are negligible. In addition, no personnel are needed at the site to start and stop the unit since the machine can be remotely controlled.

### New Booklet Describes Babcock & Wilcox Company Nuclear Power Development

ENGINEERS and others concerned with the development, application or erection of power, propulsion, and research reactors as well as nuclear components will be interested in a new bulletin issued by The Babcock & Wilcox Company.

Known as Bulletin AEB-8, the publication summarizes the company's activities in the nuclear field, ranging from the design and erection of complete reactors to the solution of design parameter problems.

Copies of AEB-8 may be obtained from The Babcock & Wilcox Company, Atomic Energy division, 161 East 42nd Street, New York 17, N. Y.

### Pacific Lighting Plans to Spend \$95,000,000 in 1959

ALMOST half of the Pacific Lighting system's record \$95 million construction budget for 1959 is earmarked for additional transmission facilities to bring new gas from out of state, it says in Pacific Lighting Corporation's annual report, released recently.

The report states that during the past five years, the Corporation's subsidiaries—Southern California and Southern Counties Gas Companies and Pacific Lighting Gas Supply Company—have invested nearly \$300 million in new facilities.

In a special section on gas supply, the report tells of the system's success-

ful efforts to meet the increasing demands of customers, who in the 20 years have grown in numbers from 920,000 to 2,300,000 and in the next 20 years will increase to about 3 million.

Earlier in the report, Board Chairman Robert W. Miller and President Robert A. Hornby state that "supplies obtained . . . should be adequate for at least the next 20 years."

"Present forecasts," the report states, "are that in each succeeding year a peak day will require for customers at least 150 million cubic feet of gas than was needed the year before. On the basis of this requirement alone, the management of the Pacific Lighting companies must continue to seek and procure more natural gas."

### Anchor Metals to Open New Plant in Alabama

PLANS to activate a new division Anchor Metals, Inc. at Anniston, Ala. have been announced by President Clyde F. Mooney of Fort Worth.

Anchor Metals, with administrative headquarters located at Hurst, is one of the nation's leading firms engaged in the design, fabrication and testing of steel electrical transmission towers and switchyard structures. "Our Anniston plant will be used to serve the southeastern area of the United States," Mr. Mooney said.

The company will occupy a site formerly owned by the J. I. Case Co. It includes approximately 12 acres of land and a plant containing 175,000 square feet of floor space.

Anchor will take over the site on May 1 and operation will begin within three to four months following that date, Mr. Mooney said.

The company was founded in Hurst in 1953 by President Mooney and Vice President J. O. LeGate as a nucleus of key personnel. Anchor has experienced a swift, steady growth with a total volume for the fiscal year ending August 31, 1958 totaling nearly \$4,500,000.

In addition to Mooney and LeGate other officers and executives include Gilbert Jackson, secretary-treasurer; Donald King, assistant secretary; R. J. Van Soner, manager of sales and engineering; C. L. Wester, chief draftsman; Charles Durkee, Hurst plant manager; Wallace J. Anderson, plant manager at Fort Madison.

## INDUSTRIAL PROGRESS—(Continued)

### Dayton Power & Light Plans \$18,932,000 Program in 1959

**DURING 1958**, The Dayton Power and Light Company (Dayton, Ohio) continued to grow in number of residential customers and in the amount of gas and electricity used by these customers, according to James M. Hart, president, and K. C. Long, chairman, in the company's annual report to stockholders.

The first of the two new 130,000 kilowatt generators to be added to the Frank M. Tait generating station went into commercial operation November, 1958. The second is scheduled for mid 1959. The addition of these units will increase the company's total generating capacity to 770,000 kilowatts (name plate rating). This is sufficient to provide an adequate reserve for several years of normal growth.

For the sixth consecutive year over 100 miles of new transmission mains were laid in 1958.

The preliminary engineering for a new generating station to be built on the Ohio river near Manchester, Ohio, is under way. Actual start of construction is not anticipated for several years.

The company estimates that its construction program will require expenditures of \$18,932,000 in 1959 and \$584,000 in 1960.

### R-R Issues Brochure Describing Synchro-Tape Unit

**PUBLICATION** of a new brochure describing how the Synchro-Tape Typewriter cuts punched-card costs is announced by Remington Rand Div. of Sperry Rand Corp. This four-page brochure illustrates and explains the techniques by which the Synchro-Tape Unit eliminates manual jobs of card punching and verifying. There is only one step requiring an operator, and even this step will be largely automatic when coded tapes are used to control repetitive details automatically while the first document of a new transaction is being written.

In addition to control and operation of machines for sorting documents, Synchro-Tape produces punched cards by automatic punching—a by-product benefit at negligible cost which eliminates human effort and error. These automatically punched cards make reports and analysis of data quickly available to management.

A copy of this brochure can be obtained at any Remington branch office or by writing to the company at 315 North Ave., New York 10, and requesting RT 8905.

### Equitable Gas Continues Expansion Program

To supply the ever-growing needs for gas service and keep pace with Pittsburgh's renaissance, Equitable Gas Company (Pittsburgh, Pa.) has spent about \$400,000 on capital improvements since the beginning of 1954. So states Donald B. Beecher, president, in his annual report to stockholders. These expenditures were for extensions and strengthening of the distribution and transmission systems, development of underground storage facilities, drilling of new gas wells, and construction of new compressor stations.

In 1958 expenditures for plant amounted to about \$400,000. The largest item of that amount, \$2,800,000, was used to drill wells and to construct well connecting lines in order to maintain the present level of production in Kentucky.

The amount authorized for capital improvements in 1959 totals about \$10,240,000.

(Continued on page 24)

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## Computer to Aid Electric Output In Philadelphia

A PROGRAM for an advanced automatic control system, "masterminded" by a digital computer, to "help solve the problem of producing electricity for a metropolitan area at minimum cost," was announced recently.

Collaborating in the venture are Philadelphia Electric Company and Minneapolis-Honeywell Regulator Company.

The digital computer-directed system, first in the electric power industry, is scheduled to be in full operation by Philadelphia Electric by the end of 1960. The joint announcement said it will:

- (1.) Calculate the least expensive pattern of allocating generation to meet system demands.
- (2.) Automatically assign this allocation to generating units.
- (3.) Provide cost data for billing computation on the power exchanged with neighboring electric companies.

Henry F. Dever, president of Honeywell's Brown Instruments Division, which will build and install the system, said:

"A continuing problem in the electric power industry is the ever-present need, particularly in times of rising costs and increasing consumer demands, to generate and transmit electricity at the most economical cost.

"An advanced system of automatic control involving concepts of computation new to both the electric power and automatic controls industries has been proposed as a solution to this complex problem.

"For the first time, a digital computer designed specifically to be adaptable to industrial processes will be made an integral part of the control loop of a system which in itself represents a significant advance in automatic control. Also, for the first time, basic data for interconnection billing will be computed simultaneously with control computations.

"The success which we hope to achieve with this revolutionary system holds tremendous promise for the future."

The digital computer, called the D-290 and developed by Honeywell's Datamatic Division in Boston, is a transistorized high-speed device. Officials said it employs digital techniques proven in Datamatic's large business computers and modified for industrial use.

The proposed computer-directed

system will include load frequency control equipment that carries out "commands" to load generators on the most economical basis and peripheral equipment to link the two and enable the computer to "talk" to analog devices.

Primarily, the system will determine the economic allocation to Philadelphia Electric's generators, including the hydrogenerators at Conowingo, Md., of the total power assigned by the Pennsylvania-New Jersey-Maryland Interconnection Dispatcher, officials said.

To do this, the computer will call upon information stored in its "memory" on such factors as transmission line losses and production costs for each generator. Simultaneously, it will "read" data constantly being fed into it by control instruments and make use of other data in making control computations.

Using equations, the computer then will mathematically determine, in millionths of a second, how much generation is to be produced by each generating unit under automatic control.

These digitized computations will be converted to analog (electrical) signals and telemetered as commands to load control devices at the generating stations. There the commands will be apportioned among generators to produce the assigned power at the correct computed cost.

Basic interconnection cost data, engineers explained, will be determined by the computer as a secondary function while "masterminding" the power network. This data will be used for accounting purposes on power exchanged over the tie lines between Philadelphia Electric and five neighboring companies. These are Pennsylvania Power & Light Company, Baltimore Gas & Electric Company, Delaware Power & Light Company, Public Service Electric & Gas Company, and Atlantic City Electric Company.

## New York Telephone Reports Record Gains in 1958

THE New York Telephone Company recorded impressive gains in service for 1958 despite the recession which marked the year's start. President Keith S. McHugh noted in the company's annual report. As the year ended the continuing demand for service was an encouraging sign for the months ahead, he declared.

Mr. McHugh said that during 1959:

Users of more than 3½ million additional telephones in New York City

will be able to dial their own long distance calls to points clear across the country.

Dial service will be installed in most of the smaller towns of the State. New services, such as the call director for businessmen, will continue to be introduced.

The \$250 million construction program for 1959 will be the second largest in the company's history.

Mr. McHugh said the company took a "calculated risk" when it decided to go ahead with a \$238 million construction program in 1958 in the midst of the recession. But he pointed to these good results: faster progress with expansion and improvement projects, added money spent during recession months in community throughout the State, and no layoff of company employees even in the more difficult months of the year.

The number of telephones in service grew in 1958 to almost 7,600,000, a record number of calls were made, and many new services were introduced, he said.

## Network Analyzer Rental Program Described in New I-T-E Bulletin

RENTAL of its giant electrical work analyzer for power-system studies on a time basis is covered in a new bulletin published by the I-T-E Circuit Breaker Company, Philadelphia.

The I-T-E analyzer — one of the largest units of its kind — provides an electrical miniature of almost any power system in the country for studies of system behavior and equipment needs.

It affords management and planning engineers of utilities, large industrial, consulting firms and rural electrification systems a fast, exact, economical means of charting growth and determining effects of change in complex electric power systems.

The new eight-page bulletin outlines the basic principles of the analyzer, its operating advantages, types of studies it can perform, and gives basic information on the analyzer rental program.

The unit—recently doubled in size and capabilities—handles all types of power-system problems, including studies of load flow, transient steady-state stability and short-circuit effects.

Because it was designed specifically to perform power-system studies, test quantities are used directly.

### \$10,400,000 Program Planned By Atlanta Gas Light

ATLANTA Gas Light Company, (Atlanta, Georgia) reports that construction expenditures in 1958 amounted to \$8,671,414. Of this amount \$4,360,634 was expended in extending mains and connecting new customers.

The company spent \$1,746,772 to increase the propane standby and peak shaving facilities in Atlanta, Augusta, Macon and Rome. The storage capacity for the propane in liquid form was increased from 4,952,000 gallons to 8,676,000 gallons and the daily production capacity from 168,000 MCF to 174,000 MCF. This is a substantial improvement in the company's ability to peak shave for prolonged periods of colder weather. The balance of the expenditures represented general improvements and necessary new equipment.

The construction program for the fiscal year ending September 30, 1959 is estimated to be \$10,400,000. Approximately 66 per cent of such construction will be for new business and

the balance for general improvements and new equipment.

### Central Power & Light Plans \$23,450,000 Program in 1959

CONTINUING its large expansion program based on anticipated future growth of the service area, the Central Power and Light Company (Corpus Christi, Texas) spent \$22,130,928 for the construction of new facilities in 1958.

The largest part of the new construction, \$12,824,523, was devoted to increasing the company's power production capacity. J. L. Bates power station, near Mission, began operation in May with an initial net generating capability of 75,000 kilowatts. In November, work began on a second unit at the plant which will add 110,000 kilowatts to system capability in 1960.

Construction progressed throughout the year on a 175,000-kilowatt expansion of Lon C. Hill power station near Corpus Christi, scheduled to begin power generation in early 1959.

The company estimates the construction expenditures for the year 1959 will total about \$23,450,000.

special types of programming, extensive mathematical knowledge or special equipment training are needed.

Use of a new removable patchboard permits advance programming of any problem, so that no operating time is lost in setting up the problem.

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The unit has a convenient recording desk which can accommodate system programs of up to three by four feet.

The analyzer and its adjoining conference room are air-conditioned and sound-proofed. The facility is located at I-T-E headquarters in central Philadelphia.

For a copy of the bulletin, write I-E Circuit Breaker Company, 1900 Hamilton street, Philadelphia 30, Pa.

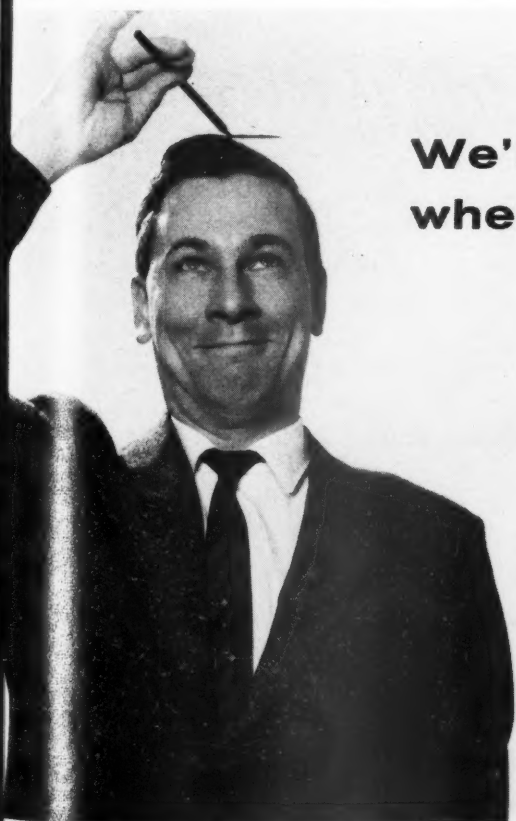
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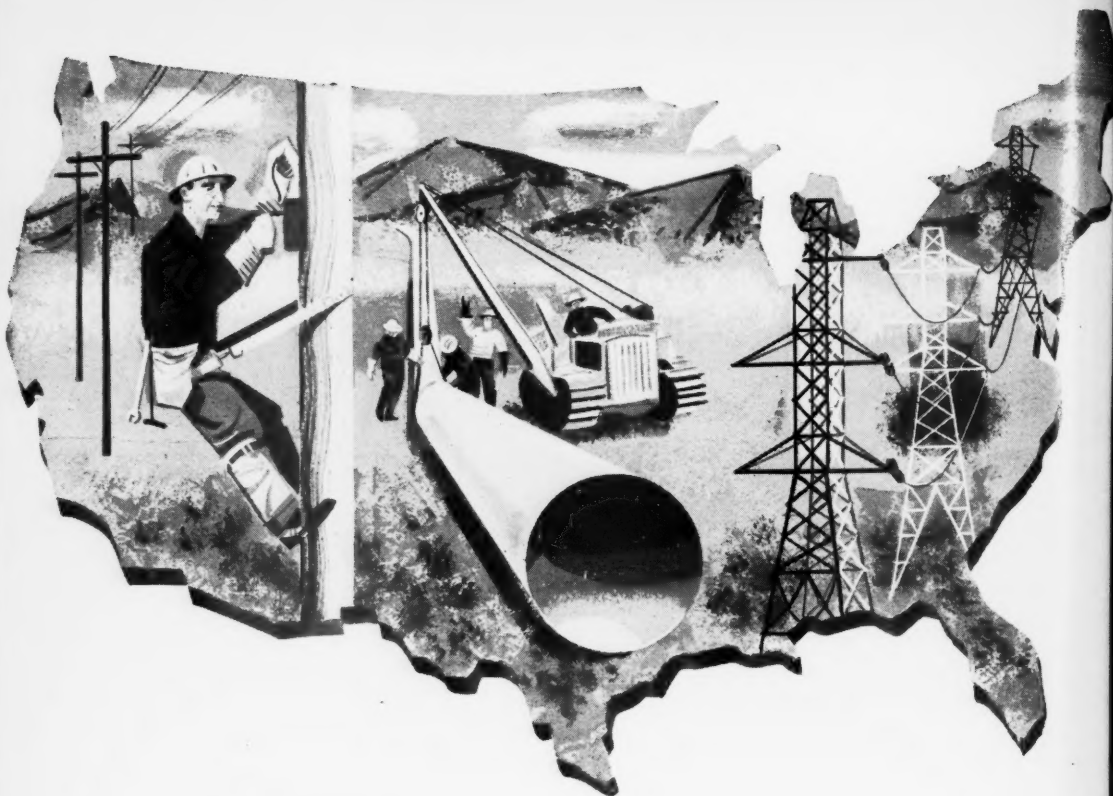
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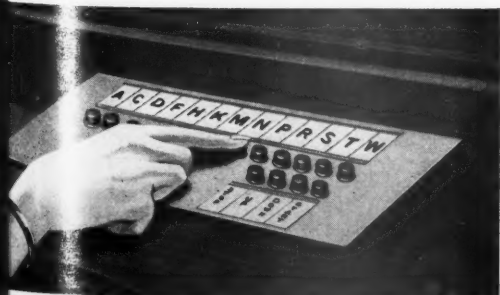
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# STILL A

Again in 1958 the areas of Alabama, Georgia, Florida and Mississippi, served by the electric power companies of The Southern Company system, recorded substantial economic growth. This resulted in increased sales of electricity and higher revenues and earnings for our system companies.

Industrial power sales, which accounted for half of the system's total energy sales, continued to grow in diversity as well as in dollar volume despite a general reduction in business activity in many sections of the nation. The use of electricity in Southern homes also mounted steadily.

The impact of the 1957-58 recession on business activity in the Southeast was considerably less severe than in most other areas of the country. Manufacturing plants in our four-state service area are, for the most part, new and efficient and their operations generally were maintained at comparatively high levels. The region's economy was strengthened further by a rise in agricultural income and a heavy volume of residential construction.

With further gains anticipated in 1959, our system companies will expend more than \$190,000,000 this year for new facilities.

## HIGHLIGHTS OF OPERATIONS

Two Years in Brief	1958	1957
<i>Sales of Electric Energy</i> (in thousands of Kilowatt-hours)	18,903,181	17,915,065
<i>Operating Revenues</i>	\$ 272,134,000.00	\$ 254,536,000.00
<i>Consolidated Net Income</i>	\$ 38,234,000.00	\$ 34,822,000.00
<i>Earnings Per Share</i> (per-end Shares)	\$ 1.81	\$ 1.65
<i>Dividends Paid per Share</i>	\$ 1.20	\$ 1.10
<i>Construction Expenditures</i>	\$ 143,513,000.00	\$ 124,572,000.00
<i>Customers Served Directly</i>	1,485,366	1,452,818

Serving the Southeast through:

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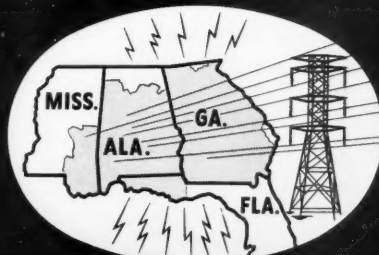
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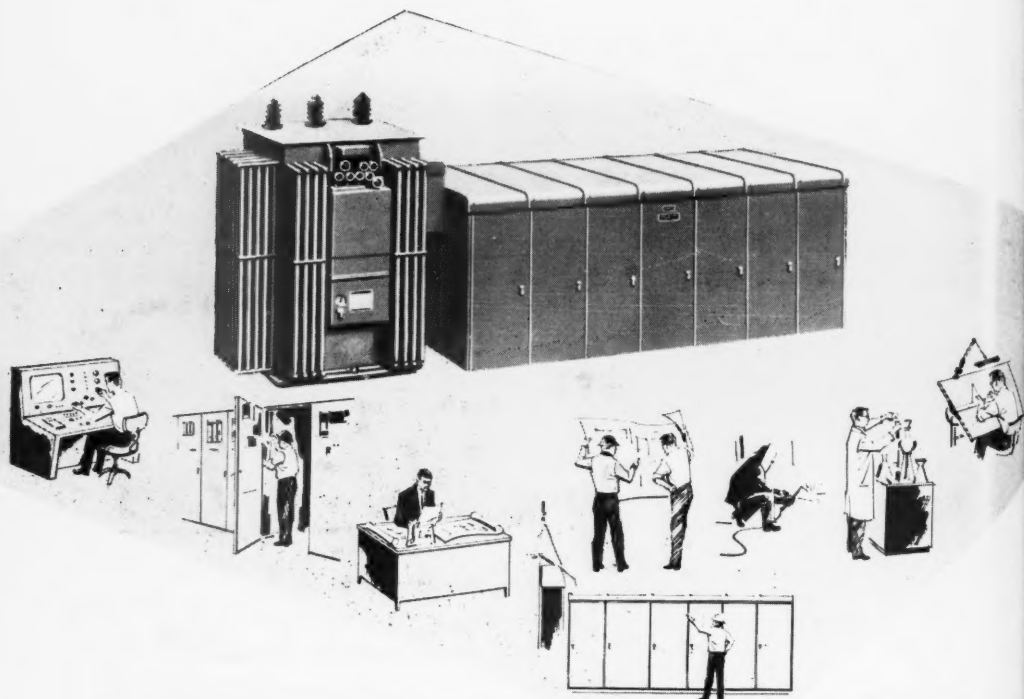
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